Credit Risk Assessment & Scoring Model

LOAN APPLICANT: INFOSYS

ASSUMED LOAN AMOUNT: ₹200 CRORE

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Project Objective & Approach

Objective:

To evaluate the creditworthiness of a potential borrower using:

Financial ratio analysis (3-year trend)

Weighted risk scoring framework

Downside stress testing

Qualitative risk assessment

Methodology:
Financial Statement Analysis → Ratio Calculation → Weighted Scoring → Stress Testing → Final Recommendation

Financial Snapshot (3-Year Summary)

Revenue has shown consistent growth over three years.

Key Indicators (FY2025):

Debt-to-Equity: 0.085

Interest Coverage: 94x

EBIT Margin: ~24%

Free Cash Flow Margin: ~20%

Current Ratio: 2.11

Observation:

The company maintains low leverage, strong operating margins, and high cash conversion.

Liquidity & Cash Flow Position

Capital Structure

Debt levels remain low relative to equity.
Leverage has gradually reduced over the last three years.

Debt Servicing Capacity

Interest obligations are small relative to operating earnings.

Liquidity Position

Short-term assets comfortably exceed short-term liabilities.

Interpretation:

Financial risk appears limited under normal operating conditions.

Weighted Credit Scoring Framework

To standardize evaluation, ratios were converted into weighted scores.

Risk Category	Score	Weight
Leverage	5	20%
Interest Coverage	5	20%
Profitability	5	20%
Cash Flow	5	15%
Liquidity	5	15%

Final Weighted Score: **4.5 / 5**
Risk Classification: **Low Credit Risk**

Stress Testing Results

To evaluate downside resilience, three scenarios were tested:

Scenario 1: Revenue -20%
Interest Coverage ≈ 75x

Scenario 2: Revenue -15% & Margin 18%
Interest Coverage ≈ 60x

Scenario 3: Severe Stress (-30% revenue, 15% margin)
Interest Coverage ≈ 41x

Even under aggressive assumptions, debt servicing capacity remains strong.

Qualitative Risk Factors

Key non-financial considerations:

Exposure to global IT spending cycles

Dependence on US and European markets

Client concentration risk

Currency sensitivity

However, strong governance and diversified client base mitigate structural risk.

Conclusion & Recommendation

Final Score: 4.5 / 5
Risk Category: LOW CREDIT RISK

Based on financial strength, scoring results, and stress testing:

The borrower demonstrates:

Conservative leverage

Stable profitability

Strong liquidity

High resilience under stress

Recommendation:

Loan approval may be considered with standard financial covenants and periodic monitoring.

Key Assumptions & Limitations

Key Assumptions

Analysis based on publicly available consolidated financial statements.

Interest expense assumed constant during stress scenarios.

EBIT margins assumed to adjust proportionally in stress simulations.

No major structural change in business model assumed.

Limitations

Model relies on historical data; future performance may differ.

Does not incorporate macroeconomic probability modeling.

Does not estimate Probability of Default (PD) statistically.

Qualitative risks are assessed based on secondary information.