

Sadbhav Infrastructure Project Limited

March 25, 2021

Ratings

Instrument*	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Non-Convertible Debentures-III	150.00	CARE BBB (CE) (CWN) [Triple B (Credit Enhancement)] (Under Credit watch with Negative Implications)	Revised from CARE BBB+ (CE) [Triple B Plus (Credit Enhancement)]; Continues to be on Credit watch with Negative Implications
Long-term Non-Convertible Debentures-IV	89.20	CARE BBB (CE) (CWN) [Triple B (Credit Enhancement)] (Under Credit watch with Negative Implications)	Revised from CARE BBB+ (CE) [Triple B Plus (Credit Enhancement)]; Continues to be on Credit watch with Negative Implications
Long-term Non-Convertible Debentures-V	110.80	CARE BBB (CE) (CWN) [Triple B (Credit Enhancement)] (Under Credit watch with Negative Implications)	Revised from CARE BBB+ (CE) [Triple B Plus (Credit Enhancement)]; Continues to be on Credit watch with Negative Implications
Total Instruments	350.00 (Rs. Three Hundred Fifty-Crore Only)		

Details of facilities in Annexure – 1;

**backed by unconditional and irrevocable corporate guarantee of Sadbhav Engineering Limited [SEL; rated CARE BBB/ CARE A3+ (Under Credit watch with Negative Implications)]*

Detailed Rationale & Key Rating Drivers

The rating assigned to the non-convertible debentures (NCD) issue of Sadbhav Infrastructure Project Limited (SIPL) takes into account the unconditional and irrevocable corporate guarantee extended by SEL.

The revision in the ratings assigned to the bank facilities and non-convertible debentures of Sadbhav Engineering Limited (SEL) is on account of sustained delay in scaling up of operations and stretched liquidity due to inordinate delay in materialization of fund raising plans including pending receipt of stake sale proceeds of Ahmedabad Ring Road Infrastructure Limited (ARRIL), debt syndication challenges in one of the HAM project and pending receipt of appointed date in two large Engineering Procurement and Construction (EPC) projects. Further high proportion of slow-moving order book as well as behind the schedule progress of HAM projects also continues to pose a challenge for the Sadbhav group². Although the Sadbhav Infrastructure Project Ltd (SIPL) has signed debenture trust deed with one of the investors for raising funds upto Rs.700 crore while securitizing listed InvIT of Indinfravit Trust during February 2021 the transaction is subject to customary condition precedent. The rating continues to remain on 'Credit Watch with Negative Implications' as receipt of aforementioned debt funds as well as stake sale proceeds of ARRIL is imperative for the Sadbhav group given high repayment obligation of the group during FY22(refers to the period April 1 to March 31) and heightened execution challenges.

The ratings, however, positively factor the moderate capital structure due to sizeable debt reduction in FY20 from the stake sale proceeds of eight operational build-operate transfer (BOT) projects. Monthly release of construction grant from June 2020 by National Highways Authority of India (NHAI) under 'Atmanirbhar Bharat Scheme' for contractors has also provided partial cash flow relief to Sadbhav group. In addition, achievement of provisional commercial operations date (PCOD) in three of the HAM projects based on partial completion and expected provisional commercial operations date (PCOD) for three more HAM projects in the near term is expected to reduce funding requirements of Sadbhav group in medium term thus aiding its liquidity. The ratings also take note of the potential upside in cash flows including receipt of arbitration proceeds and up-streaming of surplus cash flows from one of its operational road SPV Maharashtra Border Check Post Network Ltd (MBCNL; rated CARE A; Under credit watch with negative implication). The ratings also take cognizance of signing of inter-creditor agreement in two of its operational BOT projects with lenders which reduces the funding requirement of the Sadbhav group to an extent.

The above rating strengths are, however, tempered by inherent challenges faced by the construction sector.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

² Combining SEL (standalone) and Sadbhav Infrastructure Project Limited (SIPL; standalone) financials

Rating sensitivities

Positive factors

- Monetization of sizeable investment in HAM SPVs.
- Significant growth in TOI and improvement in the current asset days below 300 days.

Negative factors

- Any deviation in Sadbhav Group's fund raising plans through securitization of InvIT units to bridge major cash flow deficit in near term.
- Inability to grow scale of operations while improving stretched current assets levels by June 2021.
- Any deviation in the receipt of stake sale proceeds of ARRIL beyond revised timelines
- Inability to cure the delay in execution of HAM as well as other projects leading to levy of sizeable damages by the authority.

Detailed description of the key rating drivers of guarantor- SEL

Stretched liquidity position aggravated by delay in receipt of stake sale proceeds as well as delayed fund raising

Sadbhav group's current asset days stretched from 259 days during FY19 to 448 days during FY20 in line with earlier expectations. Although the cash flow was aided by release of monthly payment by NHA1 under Aatmanirbhar Scheme and release of mobilization advances in two of its HAM projects, debtors level continued to remain higher due to relatively higher proportion of escalation debtors of HAM projects, pending debt syndication in one HAM project and change in scope related debtors.

The group has successfully divested its entire stake in eight out of nine operational SPVs to Indinfravit Trust, however the stake sale in ARRIL is still awaited even after receipt of no-objection certificate from project authority in November 2020 and now expects the closure of said transaction by end of Q1FY22 as articulated by the management. Timely inflow of stake sale proceeds to the tune of Rs.270 crore was envisaged to provide medium term liquidity cushion to the group. Nevertheless, SIPL has signed debenture trust deed with one of the marquee investors for raising Rs.700 crore through securitization of Indinfravit units in February 2021. The funds are proposed to be used for the redemption of existing non convertible debenture and meeting equity commitment in HAM projects. Release of the debt funds is subject to fulfillment of condition precedents. Timely receipt of aforementioned debt funds and stake sale proceeds of ARRIL is imperative for the Sadbhav group given high repayment obligation of the group during Q1FY22.

Sustained delay in scaling up of operations.

Significant ramp-up in SEL's operations was envisaged from Q3FY21 due to execution of ongoing HAM projects and expected receipt of appointed date in two large EPC projects. Although the contract receipts of SEL grew during Q3FY21 as against Q3FY20, it continued to remain lower than earlier estimates on account of pending debt syndication in one HAM project, pending receipt of appointed date in two large EPC projects and stretched liquidity due to delay in materialization of fund-raising plans. Execution pace slowed down in its HAM projects, leading to delay in all its on-going HAM projects. Inordinate delay in project execution along with curing such delays beyond extension of time (EOT) heightens risk related to levy of damages by authority as per contractual terms. Hence, ability to scale up of operations while deploying the requisite funds without any further delay is extremely crucial from the credit perspective.

Challenges in execution in most of HAM projects; albeit achievement of PCOD in three projects based on partial completion providing some relief

Nine out of the 10 ongoing HAM projects of Sadbhav group are progressing with delays; with most of them having surpassed original schedule completion date. Delay in the de-scoping of unavailable land, delay in debt syndication in one of the HAM projects, stretched liquidity of the Sadbhav group and delay in receipt of mobilization advances in two HAM projects are prominent reasons for behind the schedule execution.

Sadbhav group is required to support these projects for any cost overrun or cash flow deficit till stabilization of revenue stream. However, receipt of extension of time (EoT) and consequent rescheduling of repayments in some SPVs have provided some comfort in near term. Furthermore, three HAM projects have achieved PCOD in current year based on available length providing some relief. Further, provisional COD for three more HAM projects are expected in the near term as per management's articulation.

Moderate debt coverage indicators

Sadbhav group's combined total debt/PBILDT moderated from 3.81 times during FY19 to 4.59 times during FY20 on account of decline in scale of operations. Interest coverage of Sadbhav group also steadily moderated from 2.54 times during FY19 to 1.44 times during FY20 and 1.33 times during 9MFY21 mainly on account of decline in scale of operations and higher working capital borrowing. Gross cash accruals on combined basis also declined from Rs.127.81 crore during 9MFY20 to Rs.67.88 crore during 9MFY21.

Key Rating Strengths:**Completion of stake sale process with transfer of eight out of the nine projects led to improvement in the capital structure:**

On July 1, 2019, SEL and SIPL made an announcement on stock exchange regarding execution of Share Purchase Agreements with IndInfravit Trust for selling their entire equity stake in their nine operational BOT SPVs (seven toll and two annuity based projects). As of March 20, 2020, SEL and SIPL have transferred eight out of the nine SPVs and has received stake sale proceeds of Rs.1,613 crore till February 2021 in addition to the listed units of IndInfravit trust of Rs.724 crore, which provides some financial flexibility and stable source of dividend.

Proceeds of stake sale has been utilized for the prepayment of NCD of Rs.686 crore including prepayment premium, repayment of bridge loans of Rs.293 crore, which led to improvement in overall gearing (on combined basis) from 0.86 times as on March 31, 2019 to 0.57 times as on March 31, 2020. The networth base also augmented due to gain of Rs.500 crore (net of write off of loans in two operational projects) on stake sale. TOL/TNW improved from 1.18 times as on March 31, 2019 to 0.90 times as on March 31, 2020 due to prepayment of NCDs.

Established track record in the Indian road construction sector

SEL has a track record of over two decades in the Indian road construction sector. SEL has successfully completed construction of more than 8,400 lane km of road projects since its establishment.

Reduced exposure of the group to inherent risks associated with BOT projects:

Subsequent to stake sale, exposure in BOT projects has reduced significantly to 68% of the combined net-worth as of March 31, 2020 as against 110% as on March 31, 2019. Aggregate equity commitment of Sadbhav group for 10 under construction HAM projects was Rs.1122 crore. Out of which equity to the tune of Rs.694 crore is already infused till August 2020 which reduces funding risk to an extent. Balance Rs. 428 crore is envisaged to be infused in FY21-FY22. Receipt of stake sale proceeds of Rs.90 crore, and up streaming of cash flow from two operational toll roads of around Rs.40 crore had been utilized to meet the equity commitment and funding requirement of Sadbhav group. In addition as indicated by the management SEL has signed inter creditor agreements for two of its operational underperforming toll road project SPVs thus reducing the outflow towards these projects. As articulated by the management, the group also expects additional cash flows from receipt of arbitration awards, up-streaming of surplus cash flow of MBCNL and receipt of compensation for toll exemption in ARRIL (already received).

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector

GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% and exit for developers after two years of project completion. After witnessing steady increase in pace of award during last three years, pace of award has declined in FY19 and FY20 due to moderation in the bidding appetite due to challenging fund raising scenario. Nevertheless, NHAI has made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. This move is expected to resurrect investor confidence and improve bidding appetite for HAM projects. Furthermore, to ease the funding and smoothen the cash flows of the projects during construction phase due to on-going COVID-19 pandemic, NHAI has also permitted to disburse monthly grant/bills against the work billed as against the previous milestone based payments till June 2021. In addition, recent policy changes made by NHAI with respect to 100% exit for developers after six months of COD ad against two years is also positive for the industry. However, competition has increased in the sector during 9MFY21 due to relaxation of norms by NHAI and improved bidding appetite owing aforesaid initiatives.

Key Rating Weaknesses:

Challenging environment for the construction industry: The construction sector is facing hurdles in fund raising due to delay in enhancement of working capital limits (including non-fund based limits), delay in financial closure and equity raising plans on account of challenging business environment for the sector and weakened financial health of the banking sector. The inherent risk involved in the construction industry including aggressive bidding, traffic risk, interest rate risk, volatile commodity prices and delay in project progress due to resistance towards land acquisition and regulatory clearances have collectively affected the credit profile of the developers in the past.

Liquidity: Stretched

Liquidity position of the group continued to remain stretched on account of higher current assets resulting into higher working capital borrowings. The fund based working capital limits almost remained fully utilized during the past twelve months ended February 2021. Nevertheless, the near term liquidity was managed through availment of funding to the tune of Rs.60 crore during February 2021. SEL has availed both the moratorium announced by Reserve Bank of India under covid relief scheme. Sadbhav group has repayment obligations of around Rs.359 crore during FY22. Hence, timely receipt of debt funds through securitization of InvIT and stake sale proceeds from ARRIL without further delay is crucial from credit perspective.

Analytical approach: Guarantor's Assessment , SEL

CARE has analyzed SIPL's credit profile by considering credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by SEL for NCDs of SIPL.

CARE has taken a combined view of SEL (standalone) and SIPL (standalone) for analytical purpose. This is because majority of the long-term debt raised in SIPL is backed by unconditional and irrevocable corporate guarantee of SEL. Further, SEL and SIPL have operational and financial linkages for funding investment in new projects, bridging of shortfall in select SPVs as well as up-streaming of cash flow of SPVs.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Rating Methodology – Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial Ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company - SIPL

SEL had floated a 100% subsidiary, SIPL, in January 2007, as a holding company for its BOT projects. During FY11, SEL diluted 22.22% of its stake through the issue of fresh equity of Rs.300 crore and compulsory convertible cumulative preference shares (CCCPS) of Rs.100 crore to private equity (PE) investors. Proceeds of PE were utilized by SIPL for fulfilling its equity commitment in BOT projects. During September 2015, SIPL raised Rs.425 crore through Initial Public Offer (IPO) of its equity shares.

During FY20, SIPL executed share purchase agreement with IndInfravit Trust (IndInfravit) and sold its entire stake in eight operational build operate transfer (BOT) special purpose vehicles (SPV) for the enterprise value of Rs.6,610 crore, while the stake sale is awaited in one operational SPV. Post the transaction, SIPL has a portfolio of 13 BOT projects (four operational toll road projects, nine under construction HAM projects of which two HAM projects have received PCOD on partial length). SIPL also has 10% stake in Indinfravit Trust in the form of listed units valuing Rs.720 crore which has lock-in period till February 2021.

Further, as per the stock exchange announcement dated October 19, 2019, SIPL would be merged with SEL with effect from April 1, 2019 subject to various statutory and regulatory approvals including the approval of NCLT. In consideration of the merger, SEL shall issue one equity share of SEL against three equity shares of SIPL to every shareholder of SIPL.

Covenants of rated instruments: Detailed explanation of covenants of the rated instruments is given in **Annexure-3**

(Rs. crore)

Brief Financials – SIPL (Standalone)	FY19 (A)	FY20 (A)
Total Operating Income	368	258
PBILDT	284	152
PAT	57	377
Overall Gearing	1.08	0.42
Interest Coverage (times)	1.62	0.71

A: Audited

About the Guarantor - SEL

Incorporated in 1988 and founded by late Shri Vishnubhai Patel, SEL is an Engineering Procurement and Construction (EPC) contractor executing projects in roads, irrigation and mining segment. SEL had floated a wholly-owned subsidiary – SIPL as a holding company of build-operate-transfer (BOT) projects in 2007. Apart from the 13 BOT portfolio with SIPL, SEL also has one HAM project on its books.

The board of directors of SEL has approved the changes in the directorship within promoters in May 2020 wherein earlier Chairman and Managing Director of SEL, Mr. Shashin Patel has been appointed as vice chairman and non-executive director. Mr. Vasistha Patel is appointed as Chief Executive Officer (CEO) of SEL. The company has also approved constitution of business advisory committee comprising of independent members and Mr. Shashin Patel, promoter and son of Late Vishnubhai Patel. Further, as per stock exchange announcement dated October 19, 2019, SIPL would be merged with SEL with effect from April 1, 2019 subject to various statutory and regulatory approvals including approval of National Company Law Tribunal (NCLT).

Brief Financials (Rs. crore) – SEL-Standalone	FY19 (A)	FY20 (A)
Total operating income	3634	2363
PBILDT	513	394
PAT	187	85
Overall gearing (times; including mobilization advances)	0.91	0.80
Interest coverage (times)	2.93	2.03

A – Audited;

Brief Financials (Rs. crore) – Sadbhav Group#	FY19	FY20
Total operating income	3942	2529
PBILDT	736	454
PAT	243	462
Overall gearing (times; including mobilization advances)	0.86	0.57
Interest coverage (times)	2.54	1.44

#combining SEL (standalone) and SIPL standalone financials

As per published 9MFY21 provisional results, SEL on a standalone basis has reported total operating income (TOI) of Rs.1257.65 crore (9MFY20: Rs.1935.38 crore) and loss of Rs.6.18 crore as against profit after tax (PAT) of Rs.76.97 crore during 9MFY20. Further, on combined basis, during 9MFY21 Sadbhav group reported TOI of Rs.1400.31 crore (9MFY20: Rs.2160.34 crore) and PAT of Rs.2.38 crore as against PAT of Rs.59.22 crore during 9MFY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure – 2

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures-III	INE764L07116, INE764L07124, INE764L07132, INE764L07140, INE764L07157, INE764L07165	September 21, 2016	10.30%	April 26, 2022	150.00	CARE BBB / CARE A3+ (CWN)
Debentures-Non Convertible Debentures-IV	INE764L07173	April 23, 2018	10.20%	April 23, 2023	89.20	CARE BBB (CE) (CWN)
Debentures-Non Convertible Debentures-V	INE764L07181	June 06, 2018	10.20%	June 06, 2023	110.80	CARE BBB (CE) (CWN)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds	LT	-	-	-	-	1)Withdrawn (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
2.	Debentures-Non Convertible Debentures - I	LT	-	-	-	1)Withdrawn (07-Jan-20) 2)CARE A (CE) (CWD) (30-Oct-19) 3)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
3.	Debentures-Non Convertible Debentures - II	LT	-	-	1)Withdrawn (22-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
4.	Debentures-Non Convertible Debentures - III	LT	150.00	CARE BBB (CE) (CWN)	1)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	400.00	CARE BBB / CARE A3+ (CWN)	1)CARE BBB+ / CARE A3+ (CWN) (23-Sep-20)	1)CARE A-; Stable / CARE A2+ (25-Mar-20) 2)CARE A- / CARE A2+ (CWD) (07-Jan-20)	-	1)CARE A-; Stable / CARE A2+ (28-Nov-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						3)CARE A- / CARE A2+ (CWD) (30-Oct-19) 4)CARE A- / CARE A2+ (CWD) (10-Jul-19) 5)CARE A-; Stable / CARE A2+ (04-Apr-19)		
6.	Debentures-Non Convertible Debentures - IV	LT	89.20	CARE BBB (CE) (CWN)	1)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable (18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)	-
7.	Debentures-Non Convertible Debentures - V	LT	110.80	CARE BBB (CE) (CWN)	1)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable (18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument – Non Convertible Debentures	Detailed explanation
A. Financial covenants	
1. SIPL's Total Debt/ Equity not exceeding 0.8 times	All financial covenants are met.
2. SIPL's Total Debt not to exceed Rs.1,000 crore	
3. SEL's Total Debt/Equity not to exceed 1.25 times	
4. No loss on PAT basis in SEL on an annual basis	
5. SEL's Total Debt / EBITDA not to exceed 3.5 times	
B. Non-financial covenants	
1. Unconditional and irrevocable corporate guarantee from SEL	SEL has provided unconditional and irrevocable corporate guarantee for NCDs of SIPL.
2. SIPL/SEL's networth to remain positive during tenor of issue	
3. Prior approval of investor for any transaction of merger, de-merger, consolidation, re-organization or scheme of arrangement, etc.	
4. Not to undertake any new business if equity commitment for single project is more than Rs.500 crore	
5. Prescribed cash flow to be followed in case of stake sale in step-down subsidiaries	

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Complex

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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