

**Avanse Financial Services Limited**  
**June 01, 2021**

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Commercial Paper	150.00	CARE A1+ (A One Plus)	Assigned
<b>Total Short Term Instruments</b>	<b>150.00</b> <b>(Rs. One Hundred Fifty Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

**Other Ratings:**

Facilities/Instrument	Amount (Rs. crore)	Ratings
Non-Convertible Debentures	445 (Rupees Four Hundred and Forty Five Crore only)	CARE A+; Stable [Single A Plus; Outlook :Stable]
	655 (Rupees Six Hundred and Fifty Five Crore only)	CARE A+; Stable [Single A Plus; Outlook :Stable]
Long term bank facilities	1945 (Rupees One Thousand Nine Hundred and Forty Five Crore only)	CARE A+; Stable [Single A Plus; Outlook :Stable]
	255 (Rupees Two Hundred and Fifty Five Crore only)	CARE A+; Stable [Single A Plus; Outlook :Stable]
Subordinate Debt	75 (Rupees Seventy Five Crore only)	CARE A; Stable [Single A, Outlook: Stable]

**Detailed Rationale**

The rating assigned to the proposed short-term instruments to be issued by Avanse Financial Services Ltd (AFSL) takes into account its strong liquidity position coupled with comfortable capitalisation and gearing levels. The rating factors in the likelihood of capital support from Warburg Pincus LLC, an established institutional investor with an 80% stake in AFSL, sufficient access to funding resources and reasonable asset quality metrics.

The rating remains constrained due to mediocre profitability levels and possibility of asset side risks arising on account of its higher overseas exposure.

**Rating sensitivities****Positive Factors: Factors that could lead to positive rating action/upgrade:**

- Substantial support in the form of equity infusion by the shareholders
- Improvement in financial performance with sustained ROTA above 2%
- Improvement in asset quality with maintenance of GNPA less than 1%

**Negative Factors: Factors that could lead to negative rating action/downgrade:**

- Lack of capital support from shareholders, especially during times of stress
- Any significant deterioration in asset quality and any significant visible signs of stress in loan book on account of COVID-19 outbreak
- Increase in gearing levels beyond 5x
- Change in asset risk profile with increase in the proportion of wholesale portfolio

- Persistent cumulative deficit observed in the Statutory Liquidity Statement in maturity buckets up to one year
- Non-maintenance of aggregate of sanctioned undrawn limits, cash & cash equivalents and liquid investments in excess of outstanding CP (Commercial Papers) limits, at any point in time.

#### Detailed description of the key rating drivers of AFSL

##### Key rating strengths

**Likelihood of Support from a Reputed and Established Institutional Investor Base:** AFSL's shareholders include Warburg Pincus LLC (80% stake), a US based private equity firm with offices in USA, India, China, Brazil, Europe and other locations and International Finance Corporation (IFC; 20% stake). Established over 50 years ago, Warburg Pincus has raised private equity funds, which have invested more than \$90 billion in more than 900 companies across 40+ countries around the world. Warburg Pincus Group has more than \$5 billion in the financial services space. Post completion of the equity transaction in July 2019, Warburg Pincus LLC and IFC collectively infused Rs.300 crore as growth capital into AFSL. Previously, in FY19, IFC had infused Rs.65 crore in AFSL. This has helped to strengthen AFSL's equity base subsequently providing the necessary growth capital and also improving its liquidity position.

**Comfortable Capitalization and Gearing Levels:** As on March 31, 2021, the tangible net worth stood at Rs. 920 crore. The CAR and Tier-1 CAR stood comfortable at 32.7% and 30.5% respectively with sufficient cushion available over regulatory requirement. The debt equity ratio stood at 2.5x as on March 31, 2021. As indicated by the management, on steady state basis, the gearing shall not be allowed to go beyond 5x levels.

**Reasonable Asset Quality:** Gross Stage 3 assets remained stable at 1.58% as on March 31, 2021 as compared to 1.76% as on March 31, 2020. The net Stage 3 assets however improved to 0.39% as on March 31, 2021 from 0.94% on March 31, 2020 owing to increased PCR (Provision Coverage Ratio) from 46% to 75%. The asset quality has been moderately impacted in the last two years owing to one account of discontinued segment of Education Institution Loans (EIL) and some accounts of the discontinued Micro, Small and Medium Enterprises (MSME) lending slipping into NPA category. The company has already stopped lending in the EIL segment with ticket size above Rs.5 crore and will now focus on lending to schools. Lending to financial institutions and MSME has also been already discontinued by the company. Going forward, asset quality will remain at similar levels in the near term and will likely improve in the medium term with run-down of the MSME loan portfolio

##### Key rating weaknesses

**Modest Profitability:** The net interest margin remained fairly stable at 4.39% in FY21. The PPOP (Pre-provisioning operating profit) declined marginally from Rs. 80 crore in FY20 to Rs. 71 crore in FY21 and the Credit costs increased slightly owing to higher provisioning as a result of the COVID-19 pandemic. AFSL reported a ROTA of 1.07% in FY21 as compared to adjusted ROTA (before exceptional item) of 1.47% in FY20. Improvement in profitability shall remain a key rating monitorable.

**Limited Seasoning of the Loan Portfolio:** AFSL's average loan book tenure is around 10 years. The company had commenced business operations in January 2013 with the loan book as of March 31, 2021 at Rs. 2,986 crore. Considering the CAGR over FY19-FY21 of 10.4%, this translates into limited seasoning of the overall loan book.

**Product and Geographic Concentration Risk:** AFSL is primarily present into education loans exposing it to sector concentration risk as any fall in demand for educational loan may severely impact the operations and profitability of the company. During FY15, AFSL had diversified into education institution loans which comprise 29% of total loan book. Also, AFSL has discontinued the MSME and Lending to Financial Institution loan segments. However, in FY19, the company gradually diversified into the digital segment which constitutes 5.1% of the overall loan book. Geographically, while the proportion of US exposure has reduced to around 50% from 60%, it still remains a high contributor to the overseas lending book.

##### Liquidity – Adequate

The company generally maintains liquid balances to cover around 2-3 months of net outflows including disbursements. The free cash & bank balances and liquid investments as on March 31, 2021 stood at Rs. 476 crore.

As on March 31, 2021, the company had positive cumulative surplus across all maturity-buckets of the Asset Liability Management (ALM) profile. The inflows from advances for next 1 year stood at Rs. 874 crore and debt repayments for next 1 year amounted to Rs. 1065 crore. Even under Care Ratings' stress scenario, liquidity remained sufficient with cumulative surplus up to one year. Going forward, AFSL's ability to manage and maintain liquidity enough to cover its short-term debt obligations will remain a key monitorable.

**Analytical approach:** Standalone

**Applicable Criteria**

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

[Financial ratios – Financial sector](#)

[Rating Methodology- Non-Banking Finance Companies](#)

[Criteria for Short Term Instruments](#)

**About the Company**

**Avanse Financial Services Limited**

AFSL was formed in August 1992 and was known as Abhivruddhi Holdings Pvt. Ltd. (AHPL). Dewan Housing Finance Corporation Ltd. (DHFL) & other promoter group entities bought a 100% stake in AHPL in July 2012 and commenced education loan business from January, 2013. International Finance Corporation (IFC) acquired a 20% stake in company for Rs.12.75 crore in July 2013. On February 7, 2014, the name of the company was changed from Avanse Financial Services Private Limited to “Avanse Financial Services Limited”. In March 2019, DHFL and WGC Group entered into a definitive agreement to sell 80% of its stake in Avanse to Olive Vine Investment Ltd an affiliate of the Warbug Pincus Group. The deal was completed on 30<sup>th</sup> July, 2019.

AFSL is engaged in the business of providing education loan for the purpose of higher studies both in India and abroad and for professional/ executive courses to working professional and also to Education Institutions and schools for their Working Capital and Growth Capital requirements. AFSL started its business operations in January, 2013. The Company now has 11 main branches and 5 sales representative offices as on 31<sup>st</sup> March, 2021.

<b>Brief Financials* (Rs. crore)</b>	<b>FY20 (A)</b>	<b>FY21 (A)</b>
Total income	433.78	438.89
PAT	21.53	37.90
Overall Gearing (times)	2.76	2.49
Total Assets	3,639.43	3,477.09
Gross Stage 3 Assets (%)	1.76	1.58
ROTA (%) (PAT/Average Total Assets)	0.63	1.07

A: Audited \*Financials as per IND-AS

**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 Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper- Commercial Paper (Standalone)	-	-	-	150.00	CARE A1+

## 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	1375.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable (25-Jul-18) 6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
2.	Debentures-Non Convertible Debentures	LT	95.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (25-Jul-18) 4)CARE AA+ (SO); Stable (06-Jul-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
3.	Fund-based - LT-Cash Credit	LT	190.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable (25-Jul-18) 6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
4.	Term Loan-Long Term	LT	255.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)Provisional CARE A+ (SO) (CWD) (12-Mar-19) 2)Provisional CARE AA (SO) (CWD) (06-Feb-19) 3)Provisional CARE AA+ (SO); Stable (28-Dec-18) 4)Provisional CARE AA+ (SO); Stable (28-Sep-18) 5)Provisional CARE AA+ (SO); Stable (25-Jul-18) 6)Provisional CARE AA+ (SO); Stable (06-Jul-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								7)Provisional CARE AA+ (SO); Stable (18-May-18) 8)Provisional CARE AA+ (SO); Stable (05-Apr-18)
5.	Debentures-Non Convertible Debentures	LT	55.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)Provisional CARE A+ (SO) (CWD) (12-Mar-19) 2)Provisional CARE AA (SO) (CWD) (06-Feb-19) 3)Provisional CARE AA+ (SO); Stable (25-Jul-18) 4)Provisional CARE AA+ (SO); Stable (06-Jul-18)
6.	Debt-Subordinate Debt	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (29-Sep-20)	1)CARE A; Stable (26-Sep-19) 2)CARE A (CWD) (05-Apr-19)	1)CARE A (SO) (CWD) (12-Mar-19) 2)CARE AA- (SO) (CWD) (06-Feb-19) 3)CARE AA (SO); Stable (06-Jul-18)
7.	Fund-based - LT-Term Loan	LT	138.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable

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		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								(25-Jul-18) 6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
8.	Fund-based - LT-Term Loan	LT	107.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable (25-Jul-18) 6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
9.	Fund-based - LT-Term Loan	LT	21.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable (25-Jul-18)



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		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
10.	Fund-based - LT-Term Loan	LT	63.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable (25-Jul-18) 6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
11.	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (25-Jul-18) 4)CARE AA+ (SO); Stable (06-Jul-18)



Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
12.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)Provisional CARE A+ (SO) (CWD) (12-Mar-19) 2)Provisional CARE AA (SO) (CWD) (06-Feb-19) 3)Provisional CARE AA+ (SO); Stable (25-Jul-18) 4)Provisional CARE AA+ (SO); Stable (06-Jul-18)
13.	Fund-based - LT-Term Loan	LT	51.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)CARE AA+ (SO); Stable (28-Dec-18) 4)CARE AA+ (SO); Stable (28-Sep-18) 5)CARE AA+ (SO); Stable (25-Jul-18) 6)CARE AA+ (SO); Stable (06-Jul-18) 7)CARE AA+ (SO); Stable (18-May-18) 8)CARE AA+ (SO); Stable (05-Apr-18)
14.	Debt-Subordinate Debt	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (29-Sep-20)	1)CARE A; Stable (26-Sep-19) 2)CARE A (CWD) (05-Apr-19)	1)CARE A (SO) (CWD) (12-Mar-19) 2)CARE AA- (SO) (CWD) (06-Feb-19) 3)CARE AA (SO); Stable (06-Jul-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
15.	Debt-Subordinate Debt	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (29-Sep-20)	1)CARE A; Stable (26-Sep-19) 2)CARE A (CWD) (05-Apr-19)	1)CARE A (SO) (CWD) (12-Mar-19) 2)CARE AA- (SO) (CWD) (06-Feb-19) 3)CARE AA (SO); Stable (06-Jul-18)
16.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)CARE A+ (SO) (CWD) (12-Mar-19) 2)CARE AA (SO) (CWD) (06-Feb-19) 3)Provisional CARE AA+ (SO); Stable (25-Jul-18) 4)Provisional CARE AA+ (SO); Stable (06-Jul-18)
17.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (12-Mar-19) 2)CARE A1+ (CWD) (06-Feb-19) 3)CARE A1+ (06-Jul-18) 4)CARE A1+ (24-Apr-18)
18.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (26-Sep-19) 2)CARE A+ (CWD) (05-Apr-19)	1)Provisional CARE A+ (SO) (CWD) (12-Mar-19) 2)Provisional CARE AA (SO) (CWD) (06-Feb-19) 3)Provisional CARE AA+ (SO); Stable (31-Aug-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
19.	Commercial Paper-Commercial Paper (Standalone)	ST	150.00	CARE A1+	-	-	-	-

### Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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