Dilip Buildcon Limited

April 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	11.69	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable / CARE A2 and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has withdrawn the outstanding rating of CARE BBB+; Stable/CARE A2 assigned to the bank facilities of Dilip Buildcon Limited (DBL) with immediate effect basis 'no objection certificate' (NOC) received from its lead bank (on behalf of all the consortium lenders) as well as NOCs received from its few non-consortium banks. The company has requested CARE Ratings to withdraw its bank loan ratings as its entire bank facilities were not rated by CARE Ratings.

The ratings assigned to the bank facilities of DBL takes into account the sustained high working capital intensity of operations during 9MFY23 (refers to the period from April 01 to December 31) resulting into elevated gross current asset (GCA) days of 302 days during 9MFY23 as against expectation of gradual reinstatement of GCA days by March 2023. High GCA days are primarily driven by higher quantum of inventories (including unbilled revenues and work in progress) as on December 31, 2022 which is in contrast to earlier expectations of rationalization of inventories. Higher inventory level of DBL as compared to other similar industry players was due to DBL's earlier strategy to complete the project ahead of schedule. However, inventory build-up remained at elevated levels despite increase in the average project execution period (including permissible EOT). Although the operating margins of the company have gradually recovered to 9.87% during 9MFY23 and expected to be further improve in coming quarters, recuperation of operating margin to near pre-covid level in medium term seems bleak due to higher overheads with increased execution period and absence of bonus income.

During last review, CARE Ratings had also envisaged total debt/PBILDT indicators to be below 4.00 times with improvement in operating margins during FY23. Although improved from FY22 level of 7.28 times, total debt/PBILDT continued to remain higher at 5.23 times during 9MFY23 and CARE Ratings expects the same to remain above 4 times for the year ended March 31, 2023 thus breaching the negative sensitivity mentioned earlier. Interest coverage also stood moderate at 1.89x for 9MFY23.

DBL has an outstanding order book position of approximately Rs.26,000 crore as on December 31, 2022 of which few orders awaiting appointed date, thus taking executable order book to sales ratio at 1.98x of FY22 revenues. Delay in receipt of appointed date, longer execution period for mining as well as slower than envisaged progress in few on-going projects may moderate the revenue visibility of DBL in near term and thus shall adversely impact its overall financial risk profile.

Nevertheless, slated divestment of its HAM projects to Shrem InvIT while receiving no objection certificate (NOC) from the existing investor for seven common assets against which debt was raised by DBL through its wholly owned subsidiary DBL Infra Assets Private Limited (DIAPL; rated CARE BBB+; Stable), shall provide liquidity cushion amidst sizeable equity commitments of Rs.1,900 crore in on-going HAM projects over Q4FY23 (refers to the period from January 01 to March 31) and FY24-FY25. During 9MFY23, DBL and DIAPL has divested 100% equity stake in four HAM projects to Shrem InvIT. Of the balance six projects, four projects are expected to be transferred before March 31, 2023 and two projects shall be transferred by Q1FY24 (refers to the period from April 01 to June 30). Completion of transfer of ten assets shall led to cash inflow of Rs.623 (net inflow post settlement of unsecured loans already availed) crore along with listed InvIT units of Rs.1,450 crore for DBL and DIAPL. However, of the cash consideration of Rs.623 crore, Rs.400 crore shall be in the form of deferred revenue consideration to be released post approval of change of law by National Highways Authority of India (NHAI; rated CARE AAA; Stable). While DBL's management is confident of receiving the same by Q3FY24, timely receipt of the same thereby aiding the overall liquidity of DBL shall remain crucial.

The ratings continue to derive strength from DBL's established position in the Indian construction sector, ownership of large equipment fleet, strengthened and geographically diversified order book across different segments like roads and highways, mining, irrigation, metro (civil work), airport, railways etc. Experienced promoters, large scale of operations and various initiatives undertaken by the Government of India to mitigate challenges and bottlenecks being faced by the road construction sector are

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

other prominent credit strengths. The ratings also take into account the lower repayment obligations of DBL during FY24-FY25 and completion of divestment of entire stake in three HAM projects to Cube Highways.

The above rating strengths, however continue to remain tempered by DBL's highly working capital intensive operations and inherent challenges associated with construction industry. Rating also appropriately factors in the extension of corporate guarantee to the tune of Rs.2,000 crore extended by DBL for the debt availed by its mining subsidiary DBL Siarmal Coal Mines Private Limited (Siarmal). CARE Ratings note that the Siarmal mining operations are envisaged to be cash sufficient from first year of operations with minimal reliance on DBL for its debt servicing. However, mining development operations (MDO) business is exposed to various regulatory risks which may necessitate future support from DBL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Decline in built up of current asset levels there by improving working capital intensity and improvement in current asset days to below 250 days on a sustained basis
- Improvement in PBILDT margins from core business operation

Negative factors

- Any further elevation in working capital intensity impacting its liquidity position
- Significantly lower than envisaged revenue and profitability
- Significant delay in fructification of stake sale deal for upcoming projects leading to increased reliance on debt.

Analytical approach:

To arrive at the ratings, CARE Ratings has analysed DBL's credit profile by considering its standalone financial statements along with factoring the cash flow impact of likely support to or investment in its SPVs. DBL has outstanding corporate guarantee to 8 operational/under construction HAM SPVs either till COD or receipt of some annuities or till entire tenor of the loan. However, these corporate guarantees are not yielding any credit enhancement to these SPVs in the medium term due to strong credit profile of counter party i.e. NHAI (rated CARE AAA; Stable) and comfortable debt coverage indicators. Further, strong execution capability of DBL mitigates the additional support requirement during construction phase to an extent.
DBL has also extended corporate guarantee for the debt availed by Siarmal, where in cashflows from mining operations are envisaged to be self sufficient with minimal requirement of support from DBL. Besides, the debt raised by DIAPL of Rs.675 crore against pledge of 49% equity in eight under construction HAM projects, is backed by corporate guarantee extended by DBL till the commencement of operations of these projects. As per the sanction terms, the corporate guarantee shall reduce on pro-rata basis with projects achieving COD thus limiting the outflow from DBL in case of any shortfall.

Outlook: Stable

The company's risk profile is expected to remain stable supported by relatively lower repayment obligations over medium term and expected financial flexibility rendered by divestment of HAM assets thus aiding its liquidity position.

Detailed description of the key rating drivers:

Key strengths

Established position in the Indian road construction sector with demonstrated execution capability

DBL is established player in the Indian road construction sector in terms of scale of operations and order book size. DBL bids for projects after factoring synergetic benefits arising from clustering of projects and stretches with relatively minimal challenges on land acquisition and clearances. As on December 31, 2022, DBL has portfolio of 18 under-construction HAM projects of which 12 are under various stages of execution and six are awaiting appointed date.

Vast experience of the promoters and project execution team

DBL's largest shareholder, Mr. Dilip Suryavanshi and family, have been in the business of road construction for more two decades. The other promoter, Mr. Devendra Jain, is a civil engineer with a longstanding experience in project execution. Although overall management is family centric, the promoters are supported by experienced professionals in various fields to manage the core activities.

Healthy outstanding order book position with geographical and segmental diversification albeit with few projects yet to receive appointed date and few with longer execution period

DBL has an healthy outstanding order book position of Rs.26,000 crore as on December 31, 2022 indicating sales to order book ratio of 2.96x FY22 revenues. Order book is fairly diversified amongst seven segments with contribution of road segment gradually reducing to 39% as on December 31, 2022, followed by mining at 17%, irrigation at 14%, tunnel 12%, special bridge 8% and metro at 6% of the outstanding order book. DBL's order book is geographically diversified across more than 15 states. Of the existing order book, few orders are awaiting appointed date excluding which, executable order book to FY22 revenues stands at 1.98 times. Moreover, some of the projects especially in mining has longer execution period. Going forward, delay in receipt of appointed date or slower than envisaged progress in on-going projects may moderate the revenue visibility of DBL in near term.

Ownership of sizable equipment fleet albeit with increasing capital intensity

DBL has large equipment fleet as reflected by gross block of Rs.4,062 crore as on March 31, 2022. In the past, large equipment fleet aided DBL in faster mobilisation at sites thereby enabling early projects completion and bonus entitlements. However, asset heavy business model also restricts the investible cash flow for under construction HAM projects.

History of Successful divestment of 37 projects

DBL has successfully divested 100% equity stake in three HAM projects to Cube Highways (49% stake divested during FY22 and balance 51% during 9MFY22) and has received consideration of Rs.160 crore for the same during 9MFY23.

During Q4FY22, DBL had signed binding agreement with Shrem InvIT for stake sale in ten HAM projects for equity valuation of Rs.2,350 crore of which DBL shall receive Rs.900 crore in cash and balance Rs.1,450 crore in the form of listed units (the cash component has been increased from Rs.600 crore to Rs.900 crore with proportionate reduction in listed units). DBL through DIAPL had raised funds of Rs.700 crore through cash flow securitization of seven of the above mentioned SPVs thus necessitating NOC from existing investor for conclusion of the transaction. DBL has received NOC from investor without any prepayment conditions. DBL along with DIAPL has transferred 100% equity stake in four HAM projects to Shrem Invit during November 2022. Of the balance six projects, four projects are expected to transferred before March 31, 2023 and balance two assets by Q1FY24. Against transfer of four assets to Shrem Invit, DBL has received cash consideration of Rs.247 crore (settled against unsecured loan), InvIT units of Rs.259 crore and a deferred revenue consideration of Rs.161.60 crore due to SPV level receivables and change in the law related to NHAI. Completion of transfer of ten assets shall led to cash inflow of Rs.623 (net inflow post settlement of unsecured loans already availed) crore along with listed InvIT units of Rs.1,450 crore for DBL and DIAPL. However, of the cash consideration of Rs.623 crore, Rs.400 crore shall be in the form of deferred revenue consideration to be released post approval of change of law by NHAI. While management is confident of receiving the same by Q3FY24, timely receipt of the same there by aiding the overall liquidity of DBL shall remain crucial.

In addition, management has also indicated its plan to divest its seven on-going projects which are under advances stages of execution and expected to be completed by end of FY24. Timely fructification of the same shall be crucial in light of large upcoming equity commitments.

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% exit for developers after two years of project completion. Under the Union budget 2023-24, an allocation of ₹ 2.70 lakh crore to Ministry of Road Transport and Highways (MoRTH) marks nearly a 10% jump in the allocation made under the budget 2022-23 which is expected to benefit established construction players like KTIL. However, competition has intensified in the sector for last one year in terms of bidder participation amidst volatile steel and cement prices.

Key weaknesses

High working capital intensity of operations

The working capital intensity continued to remain high during 9MFY23 resulting into elevated GCA days of 302 days during 9MFY23 as against initial expectation of gradual reinstatement of GCA days by March 2023. High GCA days are primarily driven by higher inventory (including unbilled revenues and work in progress) to the tune of ~ Rs.5000 crore as on December 31, 2022 which is in contrast to CARE Ratings earlier expectations of rationalization. Higher inventory level of DBL as compared to other similar industry players was due to DBL's earlier strategy to complete the project ahead of its schedule. However, inventory build-up sustained at elevated levels despite increase in the average project execution period to 30-32 months (including permissible EOT) as against scheduled execution period of 24 months. Further, the receivables (including retention money) of the company has

also increased to Rs.2,309 crore as on December 31, 2022 due to pending debt disbursement in few on-going HAM projects. Nevertheless, management has indicated realization of debtors to the tune of Rs.300-Rs.400 crore by March 31, 2023.
The current assets related to operations continued to remain elevated at Rs.8,027 crore as on December 31, 2022 against the expectation of rationalization of same during FY23. During 9MFY23, the cash flow from operations improved from negative Rs.634 crore to minor positive at Rs.73 crore primarily attributed to elongated creditors. Sustained improvement in the working capital going forward shall remain key rating monitorable.

Modest profitability and high leverage
The TOI of DBL registered a y-o-y growth of 11% to Rs.7,262 crore during 9MFY23 as against TOI of Rs.6,500 crore during 9MFY22. In line with the growth in scale of operations, the operating profitability of DBL gradually recovered to 9.87% during 9MFY23 as against 7.95% on y-o-y basis. Nevertheless, recuperation of operating margin to near pre-covid level in medium term appears unlikely due to higher overheads with increased execution period and absence of bonus income. Moreover, lower leverage in project special purpose vehicle (SPV) level led to relatively lower Engineering Procurement and Construction (EPC) cost and hence exposes DBL's margins to volatility in commodity prices. There were delays in issuance of letter of award (LOA) for some of the HAM projects due to debarment of DBL by NHAI for three months on account of past raid by Central Bureau of Investigation (CBI). The same has also moderated revenue visibility of FY24. Going forward, delay in receipt of appointed date or slower than envisaged progress in on-going projects may moderate the revenue visibility of DBL in near term.
Leverage of the DBL continues to remain higher with total debt/PBILDT stood at 5.23 times during 9MFY23. Interest coverage though improved from FY22 continued to remain moderate at 1.89 times during 9MFY23.

Exposure to BOT projects
DBL's exposure to subsidiaries in the form of investment loans & advances reduced and remained moderate at 24% of the networth as on March 31, 2022 due to stake sale of SPVs at regular intervals. The exposure to subsidiaries is likely to reduce during FY23-FY24 post transfer of ten assets in Shrem InvIT.
As on January 31, 2023, DBL has a portfolio of 23 HAM projects of which 5 projects have achieved PCOD, 12 projects are under various stages of execution while balance 6 projects are awaiting appointed date. DBL has equity commitments of Rs.3,624 crore for 23 HAM projects of which equity commitments to the tune of Rs.1,720 crore have been infused till December 2022 while balance equity of Rs.1,900 crore is required to be infused till FY25. Hence, timely fructification of asset monetization shall be crucial.
DBL has extended corporate guarantee for the debt raised by DIAPL till achievement of PCOD of various underlying projects. It has also extended corporate guarantee to the 8 operational/under construction HAM SPVs either till COD /receipt of some annuities or till entire loan tenor. Besides, DBL has also extended CG for the term debt availed by Siarmal. While mining operations are expected to be self sufficient from first year, inherent regulatory risks to the mining sector may necessitate support from DBL which is currently negligible.

Inherent challenges associated with the construction industry
Disproportionate hike in commodity prices as compared to inflation indexation, aggressive bidding, delay in achievement of financial closure or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on the margins of the entities in the industry.

Liquidity: Adequate
Despite higher working capital intensity during 9MFY23 the liquidity of the company was managed through increased creditors, receipt of balance stake sale proceeds from Cube Highways as well as consideration received in the form of funds and units from Shrem InvIT. The average utilization of fund based working capital bank limits remained moderately high at 87% for the trailing twelve months ended December 31, 2022. Going forward, liquidity is expected to be supported by lower repayment obligations and flexibility rendered by listed InvIT units post transfer of all ten assets.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: The factors of ESG affecting the sector are the environmental aspects such as material selection, water consumption, method of construction, waste management; the social aspects like workmen safety, community impact and accessibility and governance aspects such as stakeholder engagement, supply chain management and business ethics. CARE Ratings expects DBL's commitment to ESG will support its credit profile. Highlights of the impact of company's key ESG initiatives are as follows:
Environment:

- Plantation drives, clean-up of roadside eateries and establishments, waste reduction training and construction site hygiene training organized on World Environment Day.

- Go green initiative to control soil erosion, under the initiative, DBL plants trees along dividers, grows grass on road sides.
- DBL manufactures sand for construction purposed in accordance with its code of environment sustainability.
- DBL has installed solar panels at three plants in Indore & Bhopal. Their toll plazas are also solar power operated.

Social:

- Engage with locals for varied community development initiatives through local government and local bodies.
- Some social initiatives of DBL setting up health camps for public access for health checkups and sports training to rural children to promote rural sports

Governance:

- The company reportedly has a defined code of conduct, whistleblower policy, ESG commitment policy, Code of internal procedures & Conduct for insider trading.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Hybrid Annuity Model based road projects
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Incorporated in 2006 by Mr. Dilip Suryavanshi and family, DBL is a Bhopal-based company engaged in the construction of roads on Engineering Procurement and Construction (EPC) basis and a developer of roads on BOT basis/ HAM model. DBL was initially started as a proprietorship firm "Dilip Builders" in 1988-89 and subsequently converted into a public limited company. During August 2016, DBL has successfully completed initial public offer (IPO) of Rs.654 crore which included fresh issue of Rs.430 crore and balance through sale of partial stake by promoters and investor, Banyan Tree Growth Capital LLC. DBL has also raised around Rs.500 crore through QIP in Q1FY22. Promoter group held 70.15% stake as on December 31, 2022. As on December 31, 2022, DBL had 5 operational, 12 under construction HAM projects and 6 HAM projects awaiting appointed date.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	9,209.49	9,006.25	7,262.23
PBILDT	1,474.31	766.81	716.43
PAT	319.29	(85.97)	163.47
Overall gearing (times)*	1.42	1.29	1.11
Interest coverage (times)	2.52	1.27	1.89

A: Audited; UA: Unaudited;*including acceptances and mobilization advances; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	NA	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	NA	-	-	March 2025	0.00	Withdrawn
Fund-based - LT-Term Loan	NA	-	-	March 2025	11.69	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee	NA	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB+; Stable (30-Mar-23)	1)CARE A-; Stable (31-Mar-22) 2)CARE A; Stable (11-Jan-22) 3)CARE A; Stable (25-Nov-21)	1)CARE A; Stable (09-Mar-21)	1)CARE A; Stable (06-Jan-20)

2	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB+; Stable (30-Mar-23)	1)CARE A-; Stable (31-Mar-22) 2)CARE A; Stable (11-Jan-22) 3)CARE A; Stable (25-Nov-21)	1)CARE A; Stable (09-Mar-21)	1)CARE A; Stable (06-Jan-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-23)	1)CARE A-; Stable / CARE A2+ (31-Mar-22) 2)CARE A; Stable / CARE A1 (11-Jan-22) 3)CARE A; Stable / CARE A1 (25-Nov-21)	1)CARE A; Stable / CARE A1 (09-Mar-21)	1)CARE A; Stable / CARE A1 (06-Jan-20)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	-	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-23)	1)CARE A-; Stable / CARE A2+ (31-Mar-22) 2)CARE A; Stable / CARE A1 (11-Jan-22) 3)CARE A; Stable / CARE A1 (25-Nov-21)	1)CARE A; Stable / CARE A1 (09-Mar-21)	1)CARE A; Stable / CARE A1 (06-Jan-20)
5	Non-fund-based-LT/ST	LT/ST*	-	-	-	-	1)Withdrawn (09-Mar-21)	1)CARE AAA (CE); Stable / CARE A1+ (CE) (06-Jan-20) 2)CARE AAA (SO); Stable

								/ CARE A1+ (SO) (03-May-19)
6	Non-fund-based-LT/ST	LT/ST*	-	-	-	-	-	1)Withdrawn (06-Jan-20) 2)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (03-May-19)
7	Debentures-Non Convertible Debentures	LT	100.00	CARE BBB+; Stable	1)CARE BBB+; Stable (30-Mar-23)	1)CARE A-; Stable (31-Mar-22) 2)CARE A; Stable (11-Jan-22) 3)CARE A; Stable (25-Nov-21)	1)CARE A; Stable (09-Mar-21) 2)CARE A; Stable (22-May-20)	-
8	Fund-based - LT-Term Loan	LT	11.69	CARE BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in
Relationship Contact Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Palak Sahil Vyas Assistant Director **CARE Ratings Limited** Phone: +91-79-40265637 E-mail: palak.gandhi@careedge.in Utkarsh Yadav Lead Analyst **CARE Ratings Limited** E-mail: utkarsh.yadav@careedge.in

About us:

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