

PNB Housing Finance Limited (Revised)

June 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	15,600.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	16,400.00	CARE AA; Positive / CARE A1+	Reaffirmed; Outlook revised from Stable
Long-term instruments-Bonds	1,266.00 (Reduced from 6,129.00)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term instruments-Bonds	2,000.00 (Reduced from 7,000.00)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term instruments-Subordinate Debt	200.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	4,735.00 (Reduced from 5,000.00)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term instruments-Bonds -Tier II Bonds	300.00 (Reduced from 500.00)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term instruments-Bonds -Tier II Bonds	499.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Long-term instruments-Bonds -Tier II Bonds	1,000.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Fixed deposit	25,000.00 (Reduced from 28,500.00)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Commercial paper	5,000.00 (Reduced from 25,000.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed Rationale and key rating drivers

The reaffirmation of ratings for long-term and short-term instruments of PNB Housing Finance Limited (PNBHFL) continue to derive strength from its experienced management team, strong market position as the fourth-largest housing finance company (HFC) in the country (on assets under management [AUM] basis as on March 31, 2023) along with a well-diversified resource profile. The ratings continues to take into consideration the brand linkages with Punjab National Bank (PNB) (rated at CARE AA+; Positive); the promoter of PNBHFL and the consistent support derived from the promoters.

These rating strengths are, however, partially offset by the moderate albeit improving profitability profile of the company with return on total assets (ROTA) of 1.58% for FY23 on the back of modest net interest margins (NIMs). However, CARE Ratings Limited (CARE Ratings) notes that the asset quality is on an improving trend with gross non-performing assets (GNPAs) reducing to 3.83% of loan portfolio as on March 31, 2023 compared to 8.13% of loan portfolio as on March 31, 2022.

After the rights issue of ₹2,500 crore, the shareholding of PNB has reduced to 28.2% as on May 31, 2023 (below 30%); and as per the new trademark agreement, PNBHFL shall pay a royalty, which is higher of, 0.2% of the revenue or 2% of the profit after tax (PAT), subject to a minimum charge of ₹14.97 crore and a maximum charge of ₹30 crore in the event of PNB's shareholding falling below 30%.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent growth in the loan book with retail book growing above 17% on a sustained basis.
- Significant growth in the loan book with overall GNPA remaining below 1.75% on a sustained basis.
- Improvement in the profitability profile with ROTA above 2% on a sustained basis.

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

- Deterioration in the capitalisation profile with overall capital adequacy ratio (CAR) falling below 17%.
- Deterioration in the asset quality profile, thereby impacting profitability.

Analytical approach: Fully Consolidated; PNBHFL and its subsidiary, PHFL Home Loans and Services Pvt. Ltd due to managerial and operational linkages.

Outlook: Positive

The revision in the rating outlook to positive, factors in the improved capitalization profile due to right issue of ₹2,500 crore, providing sufficient headroom to the company for future growth. Also, CARE Ratings expects the support from the promoter PNB as well as the major shareholder- the Carlyle group to be forthcoming as and when required. With improving collection efficiency trend and reduction in bulky wholesale exposures CARE Ratings expects credit cost to remain under control, resulting in improved profitability profile.

Detailed description of the key rating drivers:

Key strengths

Long-standing track record and market position: Established in 1988, PNBHFL has a long and profitable track record of operations of over three decades. PNBHFL is the fourth-largest HFC in India with AUM of ₹66,617 crore as on March 31, 2023. The company's portfolio after degrowing in FY21 and FY22, has increased by 2.4% in FY2023. Degrowth was mainly driven by a decline in the wholesale book, in line with the concerted effort by the management to reduce its high-ticket bulky exposures. Consequently, the share of corporate book reduced from 21% of AUM as on March 31, 2019 to 6% as on March 31, 2023. Retail disbursements also got impacted in FY21 and FY22 due to COVID-19 pandemic. However, the retail portfolio grew by 10% in FY23, with increased focus on lower-ticket size and salaried personnel.

As on March 31, 2023, retail loan book, i.e., individual housing loans (IHL; 67%), retail loan against property (LAP; 23%), retail non-residential premise loans (NRPL) (4%) and retail lease rental discounting (LRD) (1%) together comprised 95% of AUM, while the wholesale loan book constituting construction finance contributes 5% of total AUM. The on-balance sheet net loan book stood at ₹59,273 crore (up 2.4% Y-o-Y.).

During Q4FY23, the company created a separate vertical for affordable segment and started it afresh under the name of 'Roshni Home loan'. The Unnati home loan has been clubbed with the prime portfolio as it was being managed by the prime team only. Currently, the average ticket size targeted under the Roshni segment is around ₹17 lakh and with increased focus on this segment, PNBHFL intends to build up its team for this segment and strengthen its distribution network with increased presence in Tier-2 and Tier-3 cities.

Going forward, while the corporate book is expected to further reduce, retail book is expected to grow by around 17% in FY24. The affordable housing finance segment is expected to gain increased traction, with it amounting to around 5-10% of incremental disbursements.

Regular track record of support from the promoters and brand linkages with PNB (promoter of PNBHFL): PNBHFL is promoted by PNB. The other major investor is the Carlyle group. Both these entities participated in the latest round of rights issue

of ₹2,500 crore. With PNB investing ₹500 crore, its shareholding has reduced to 28.2% as on May 31, 2023, from 32.5%, as on March 31, 2023. Going forward, CARE Ratings expects PNB to continue to remain the major shareholder with its shareholding remaining above 26%.

PNBHFL also shares brand name with PNB along with benefits in terms of financial flexibility for fund raising and deposit mobilization. PNBHFL also received support from its promoter in the form of board representation, with the current managing director (MD) of PNB, Atul Goel and Dilip Kumar Jain (CGM at PNB) serving as non-executive nominee directors.

The Carlyle group holds 32.7% of shareholding, as on May 4, 2023 in PNBHFL and has invested ₹844 crore in the rights issue. Going forward too, CARE Ratings expects the Carlyle group to remain the major shareholder and support the company in the form of capital commitment, as and when required.

Diversified resource profile: PNBHFL has demonstrated strong resource-raising capacity to fund business growth. It has, in the past few years, raised funds through various market instruments such as non-convertible debentures and commercial paper, deposits, external commercial borrowings as well as loans from various banks and financial institutions, including National Housing Bank (NHB). End-March 2023, the total borrowings of PNBHFL stood at ₹53,655 crore (excluding off balance sheet), almost similar to a year ago borrowing of ₹53,040 crore. As on March 31, 2023, PNBHFL's funding profile (borrowings) comprised deposits (32.1%), loans from banks (42.2%), NCDs (9.8%), NHB finance (5.7%) and external commercial borrowings (ECBs; 10.2%). Before FY22, PNBHFL had raised funds through off-balance sheet transactions (securitization) which accounted for 12% of the overall funding mix as of March 31, 2023. Although going forward, the share of securitization volumes is expected to reduce gradually. The share of shorter tenure commercial paper (CP) borrowings in the overall funding mix has declined to nil as compared with 2% as on March 31, 2021.

Key Weaknesses

Moderate asset quality profile, although improving: PNBHFL witnessed steep deterioration in its asset quality with its gross NPA ratio increasing from 0.5%, as on March 31, 2019, to 8.1%, as on March 31, 2022. However, driven by improving collection efficiency, write offs and resolution of its corporate accounts, Gross NPA ratio reduced to 3.83%, as on March 31, 2023.

The asset quality for the corporate segment improved with GNPA ratio reducing from 37.13% as on March 31, 2022, to 22.25% as on March 31, 2023, driven by write offs and resolutions. Corporate NPA now consists of two accounts only, wherein one account comprises 92% of the NPA value and is backed by a large real estate developer. Also, stage 2 book stands at nil as on March 31, 2023, reflecting limited credit risk going forward.

On the retail side, the company has reduced its exposure to the self-employed segment which in turn has marginally improved the asset quality. Additionally, the company has also been able to recover through SARFAESI post the lifting of Supreme Court order in October 2021. Consequently, the retail GNPA improved to 2.57% as on March 31, 2023, from 3.89% as on March 31, 2022.

Furthermore, all the loans in both housing and non-housing segments are backed by adequate security which provides further support to the asset quality. The average ticket size of the loan in prime and affordable housing segment is around ₹29 lakh and ₹17 lakh respectively, whereas for loan against property (LAP), it is ₹33 lakhs. Currently, the company is maintaining a provision coverage ratio of 29%.

Going forward, CARE Ratings expects that the company will be able to reduce its overall gross NPA ratio below 2% on a sustainable basis, which will remain a key rating sensitivity.

Moderate profitability profile: During FY23, NIMs of PNBHFL improved to 3.5% from 2.6% in FY22, as the company was able to improve its yields, while the rise in cost of funds remained small. Due to its relatively large size and corresponding economies of scale, operating expenses to average total asset ratio remained low at 0.86%. However, as per CARE Ratings' calculations, credit costs for PNBHFL increased (as a percentage of total assets) to 1.05% in FY23 as compared with 0.77% in FY22 owing to high write offs. Overall, PNBHFL reported a net profit of ₹1,046 crore during FY23 as compared to ₹836 crore during FY22, with return on average assets of 1.58%.

Going forward, CARE Ratings expects profitability to further improve with ROTA remaining above 2% on a sustainable basis.

Liquidity: Strong

As per the asset liability maturity (ALM) statement dated March 31, 2023, the liquidity profile of PNBHFL is strong with no cumulative mismatches in short-term buckets, i.e., upto six months. If the line of credit is excluded from the inflows, the company has negative cumulative mismatches in 6-12 months bucket. As on March 31, 2023, the company has debt repayments of ₹10,950 crore for the next six months, against this it had cash & cash equivalent of ₹4,693 crore and sanctioned and unutilised bank lines of ₹4,815 crore. Apart from this, PNBHFL has shared brand name with PNB which aids in deposit mobilization.

Environment, social, and governance (ESG) risks

Given that PNBHFL is engaged in the lending business, it is exposed to the environmental risks indirectly through their portfolio of assets. If the entities on whom PNBHFL has an exposure faces environmental or regulatory risk, it could translate into credit risks for PNBHFL.

PNBHFL has undertaken various programmes under Environment and Water Conservation in MP, Rajasthan, UP, Haryana and Maharashtra. The company supported solar Electrification in 23 government schools in Haryana and UP. It has been promoting quality education through infrastructure development viz. upgradation of Anganwadi Centers and government school, e-learning infrastructure development amongst others.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Housing Finance Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

PNBHFL, established in 1988, is a deposit-taking HFC registered with the NHB. It is engaged in retail loans (housing loans for construction, purchase, repair and up-gradation of houses, loan against property [LAP] and non-residential premise loans and LRD loans to individuals) and wholesale loans, viz., corporate term loans, construction finance and LRD. It is the fourth-largest HFC in India with reported outstanding AUM of ₹66,617 crore as on March 31, 2023.

PNB is the promoter of PNBHFL with 28.20% shareholding in the company as on May 31, 2023 and Quality Investments Holdings (QIH), part of the Carlyle group, holding 32.7% stake as on May 31, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total income	7,624	6,201	6,518
PAT	930	836	1,046
Interest coverage (times)	1.24	1.27	1.35
Total assets	70,939	65,229	66,643
Net NPA (%)	2.43	5.06	2.76
ROTA (%)	1.25	1.23	1.58

A: Audited UA: Unaudited; 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	Coupon Rate	Maturity Date	Size of the Issue(₹ Cr)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	March 31, 2024	16400.00	CARE AA; Positive / CARE A1+
Fund-based-Long-term	-	-	-	March 31, 2027	15600.00	CARE AA; Positive
Fixed Deposit	-	-	-	-	25000.00	CARE AA; Positive
Commercial paper(Standalone)	-	-	-	<1 year	5000.00	CARE A1+
Long Term Bonds ^	INE572E09106	16-Jan-08	9.20%	16-Jan-23	0.00	Withdrawn
Long Term Bonds ^	INE572E09163	29-Jun-12	9.25%	29-Jun-22	0.00	Withdrawn
Long Term Bonds ^	INE572E09171	14-Sep-12	9.15%	14-Sep-22	0.00	Withdrawn
Long Term Bonds ^	INE572E09189	21-Dec-12	9.00%	21-Dec-22	0.00	Withdrawn
Long Term Bonds-Tier II^	INE572E09197	21-Dec-12	9.10%	21-Dec-22	0.00	Withdrawn
Long Term Bonds ^	INE572E09205	16-May-13	8.58%	16-May-23	0.00	Withdrawn
Long Term Bonds ^	INE572E09486	27-Jul-17	7.59%	27-Jul-22	0.00	Withdrawn
Long Term Bonds ^	INE572E09619	30-Aug-18	9.00%	30-Aug-22	0.00	Withdrawn

Long Term Bonds – Tier-II	INE572E09320	18-Jan-16	8.42%	17-Jan-26	210.00	CARE AA; Positive
Long Term Bonds – Tier-II	INE572E09346	28-Apr-16	8.39%	28-Apr-26	290.00	CARE AA; Positive
Long Term Bonds – Tier-II	INE572E09387	26-Jul-16	8.57%	26-Jul-23	499.00	CARE AA; Positive
Long Term Bonds – Tier-II	INE572E09627	07-Jan-19	9.40%	05-Jan-29	39.70	CARE AA; Positive
Long Term Bonds	INE572E07068	07-Nov-19	8.75%	05-Nov-25	2,500.00	CARE AA; Positive
Long Term Bonds	INE572E07076	25-Jun-21	6.50%	25-Jun-24	130.00	CARE AA; Positive
Long Term Bonds	INE572E07084	27-Sep-21	6.50%	27-Sep-24	325.00	CARE AA; Positive
Proposed Tier II Bonds					760.30	CARE AA; Positive
Proposed Subordinate Debt					200.00	CARE AA; Positive
Proposed bonds(Non-convertible debentures)					5,046.00	CARE AA; Positive

^withdrawn on maturity

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 2023-2024	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
1	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
2	Debt-Subordinate Debt	LT	200.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20)

								2)CARE AA+; Negative (24-Apr- 20)
3	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
4	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
5	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
6	Bonds-Non Convertible Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
7	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)

8	Commercial Paper- Commercial Paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (30-Jun-22)	1)CARE A1+ (02-Jul- 21) 2)CARE A1+ (24-Apr- 20)	1)CARE A1+ (03-Jul- 20) 2)CARE A1+ (24-Apr- 20)
9	Fund-based-Long Term	LT	15600.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
10	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
11	Fixed Deposit	LT	25000.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22) 2)CARE AA; Stable (22-Jun-22)	1)CARE AA (FD); Stable (02-Jul- 21)	1)CARE AA (FD); Stable (03-Jul- 20) 2)CARE AA+ (FD); Negative (24-Apr- 20)
12	Bonds-Tier II Bonds	LT	300.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20) 2)CARE AA+; Negative (24-Apr- 20)
13	Bonds-Non Convertible Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul- 21)	1)CARE AA; Stable (03-Jul- 20)

								2)CARE AA+; Negative (24-Apr-20)
14	Bonds-Tier II Bonds	LT	499.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
15	Bonds	LT	1266.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
16	Fund-based-LT/ST	LT/ST*	16400.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (30-Jun-22)	1)CARE AA; Stable / CARE A1+ (02-Jul-21)	1)CARE AA; Stable / CARE A1+ (03-Jul-20) 2)CARE AA+; Negative / CARE A1+ (24-Apr-20)
17	Bonds	LT	2000.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
18	Bonds-Tier II Bonds	LT	1000.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative

								(24-Apr-20)
19	Debentures-Non Convertible Debentures	LT	4735.00	CARE AA; Positive	-	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21) 2)CARE AA+; Negative (24-Apr-20)	

*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	Bonds-Tier II Bonds	Complex
2	Bonds	Simple
3	Commercial Paper-Commercial Paper (Standalone)	Simple
4	Debentures-Non Convertible Debentures	Simple
5	Debt-Subordinate Debt	Complex
6	Fixed Deposit	Simple
7	Fund-based-Long Term	Simple
8	Fund-based-LT/ST	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 Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Sanjay Agarwal Senior Director CARE Ratings Limited Phone: +91-22-6754 3582 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Dinesh Sharma Director CARE Ratings Limited Phone: +91-120-4452005 E-mail: dinesh.sharma@careedge.in	Gaurav Dixit Director CARE Ratings Limited Phone: +91 -120-4452002 E-mail: gaurav.dixit@careedge.in
	Neha Kadiyan Associate Director CARE Ratings Limited Phone: +91-120-4452022 E-mail: neha.kadiyan@careedge.in

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