

**Aavas Financiers Limited (Revised)**

December 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	9,537.00 (Enhanced from 8,537.00)	CARE AA; Stable	Reaffirmed
Long-term Bank Facilities – Cash credit	125.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	23.40	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	420.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	200.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	500.00	CARE AA; Stable	Assigned
Commercial Paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

**Rationale and key rating drivers**

CARE Ratings Limited (CARE Ratings) has assigned the ratings to Non-Convertible Debentures and has reaffirmed the ratings assigned to the various instruments and bank facilities of Aavas Financiers Limited (AFL), deriving strength from its experienced management team and established track record of maintaining good asset quality with portfolio growth. Ratings also factor the company's strong capitalisation and comfortable liquidity profile with no negative cumulative mismatches across time buckets, per the asset liability maturity (ALM) statement on September 30, 2024. While reaffirming ratings, CARE Ratings has considered AFL's entire debt profile and its ability of raising funds from sources at competitive rates.

Ratings also factor in healthy profitability metrics, high portfolio granularity, good growth opportunities in the affordable housing segment and adequate risk management and control systems put in place by the company.

Further, on August 10, 2024, the promoter/ promoter group of AFL, i.e. Kedaara Capital and Partners Group, have entered into Share Purchase Agreements (SPA) to sell their entire stake in AFL to Aquilo House Pte. Ltd. (Acquirer), belonging to CVC Capital Partners group. The Acquirer has also announced an open offer to the public shareholders of AFL in compliance with the SEBI regulations. Post the consummation of the SPA and completion of the open offer, the Acquirer shall be categorized into promoters/promoters group of AFL while Kedaara Capital and Partners Group will cease to be promoters / members of the promoter group of AFL. The aforesaid transaction is subject to various regulatory and lenders approval.

However, these rating strengths are partially offset by AFL's relatively vulnerable target borrower profile, with most customers being new to mortgage having modest credit profiles (self-employed borrowers comprising 60% of assets under management [AUM] as on September 30, 2024), making the company susceptible to inherent asset quality risks. However, owing to granularity of the loan book with low loan-to-value ratio (LTV; average of 55%), strong credit appraisal mechanisms, prudent and proactive risk management and control systems and the enhanced use of technology and analytics, AFL has been able to keep its asset quality under control.

AFL continues to have a geographically concentrated portfolio, with Rajasthan accounting for about 34% of the AUM as on September 30, 2024, although reduced from 44% as on March 31, 2019.

**Rating sensitivities: Factors likely to lead to rating actions**
**Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Significantly scaling-up operations in a sustainable and profitable manner.
- Significantly improving geographical diversification.
- Comfortable asset quality, with credit cost under control on a sustained basis.

**Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:**

- Weakness in profitability, with return on total assets (RoTA) below 2.5% on a continuous basis.
- Sharply varying portfolio mix.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

- Weakness in capitalisation profile with gearing rising above 7x.

### **Analytical approach:** Standalone

### **Outlook:** Stable

The stable outlook reflects CARE Ratings' expectation that AFL will continue growing its loan book while maintaining asset quality as envisaged.

### **Detailed description of the key rating drivers:**

#### **Key strengths**

##### **Experienced board of directors and management team**

As on September 30, 2024, AFL is majorly owned by two private equity (PE) investors, Kedaara Capital and Partners Group, with a shareholding of 26.47%. However, in August 2024, the promoter/ promoter group of AFL i.e. Kedaara Capital and Partners Group have entered into an Share Purchase Agreement (SPA) to sell their entire stake to Aquilo House Pte. Ltd., which belongs to CVC Capital Partners group (Acquirer). Further, in compliance with the SEBI regulations, the acquirer has also announced an open offer for acquisition of upto 26.21% holding from the public shareholders of AFL. The aforesaid transaction is subject to various regulatory and lenders approval. Post the consummation of the SPA and completion of the open offer, the Acquirer / CVC Capital Partners shall be categorized into promoters/ promoters group of AFL while Kedaara Capital and Partners Group will cease to be promoters / members of the promoter group of AFL. The management team is headed by Sachinder Bhinder, Managing Director & CEO, and Ghanshyam Rawat, President and CFO, who are supported by an experienced second line of management with vast experience in the finance and housing finance industry. As of now 10+ CXOs are there in the company.

##### **Robust capitalization**

The capitalization profile of AFL is strong supported by healthy internal accruals and regular equity infusions in the past. The tangible net worth (TNW) of AFL stood at ₹4,001.22 crore as on September 30, 2024, up from ₹3,731.50 crore as on March 31, 2024. The company's gearing also stood comfortable at 3.10x as on September 30, 2024, as compared to 3.31x as on March 31, 2024. While the gearing is expected to increase with incremental business being funded with fresh borrowings, CARE Ratings expects gearing to remain below 6x in the medium to long term.

The capital adequacy ratio (CAR) of AFL also remains strong with Tier-1 and overall CAR of 46.24% and 46.48%, respectively, as on September 30, 2024, which is well above the regulatory requirement. The capitalization profile is also supported by lower risk weights assigned on smaller ticket home loans and secured nature of portfolio. CARE Ratings expects that comfortable capitalization profile of AFL will provide buffer against asset quality related shocks, if any.

##### **Diversified resource profile**

AFL's funding profile remains diversified over the past few years with funding from banks/financial institutions (FIs) (through a mix of term loans amounting to 48.5% of the total borrowings as on September 30, 2024), refinance from National Housing Bank (NHB; 19.8%) and through non-convertible debentures (NCDs) (5.9%). Furthermore, AFL's funding position remains adequate due to strong relationship with all the leading banks of the country such as Punjab National Bank (PNB), State Bank of India (SBI), HDFC Bank Ltd. and funding support from various international agencies, such as Asian Development Bank (ADB), International Finance Corporation (IFC), and British International Investment (Erstwhile known as CDC) as on September 30, 2024.

The average borrowing cost of AFL (reported) stood at 7.82% as on September 30, 2024 as compared to 7.47% as on March 31, 2024. Furthermore, AFL has no dependency on short-term commercial paper funding. The company borrowed incremental funds at an average interest rate of around 8.42% in H1FY25.

Going forward, CARE Ratings expects AFL to raise funds at competitive rates.

##### **Healthy financial risk profile**

Engaged in providing affordable housing finance, AFL has registered strong growth with assets under management (AUM) growing at a five-year compounded annual growth rate (CAGR) of 22.2% from fiscal 2018 at ₹4,073 crore till fiscal 2024 at ₹17,313 crore and further to ₹18,396 crore as on September 2024. The housing loan portfolio comprises 68.94% of the total AUM while the remaining 31.04% belongs to mortgage-backed non-housing portfolio, primarily Loan Against Properties (LAP) and MSME loans with average ticket size of ₹8 lakh as on September 30, 2024. Although the non-housing loan portfolio disbursements increased to 34.40% as on September 30, 2024, it is in compliance with the Reserve Bank of India (RBI) guidelines for maintaining the minimum proportion between housing and non-housing loan to 60:40. The management aims to keep the non-housing loans at around the similar level of the total loan book in the medium term.

The profitability remains healthy with slight moderation in net interest margins (NIMs) of 6.07% in FY24, and further reduced to 5.83% in H1FY25, owing to rise in cost of borrowings due to increasing interest rates scenario. Operating expenses to average assets ratio has slightly improved from 3.64% in FY24 to 3.29% in H1FY25 owing to operational efficiencies from the digital

infrastructure investments. The credit costs slightly increased from 0.10% in FY23 to 0.16% in FY24 and remained stable at similar levels in H1FY25.

With moderation in NIMs and increase in credit costs in FY24 and H1FY25, the company has reported a RoTA of 3.29% in FY24 H1FY25 as against 3.53% in FY23. Going forward, CARE Ratings expects NIMs to further compress from the current levels on account of elevated interest rate scenario which is expected to lead to higher cost of borrowing.

### **Asset quality under control**

AFL has continued to report healthy asset quality metrics with gross non-performing asset (GNPA) ratio of 0.94% as on March 31, 2024, slightly moderated from 0.92% as on March 31, 2023 and net non-performing assets (NNPA) ratio of 0.67% as on March 31, 2024 vis-à-vis 0.68% as on March 31, 2023. Owing to incremental slippages in H1FY25 and seasonality factor, the GNPA and NNPA stood slightly higher at 1.08% and 0.78% respectively as on September 30, 2024 (compared to 1.04% and 0.76% in September 2023). The provision coverage ratio stood at 28.87% as on September 30, 2024 (28.81% as on March 31, 2024).

Furthermore, with improved collection and underwriting system, delinquency level of AFL in softer buckets (1+dpd) also stands comfortable with 1+dpd of 3.12% as on March 31, 2024, down from the level of 3.30% as on March 31, 2023.

The asset quality profile of the company is, supported by strong control systems and low LTV ratios, with average LTV at about 55.20% end- June 30, 2024. Also, given the secured nature of the lending with comfortable LTV ratio at origination, most of the properties being self-occupied, and the company being covered under the SARFAESI Act., losses, in case of defaults, are expected to be limited.

### **Key weaknesses**

#### **Exposure to relatively vulnerable borrower segment**

AFL's portfolio size remains moderate compared to large, rated players in the housing finance industry. As an affordable housing finance company, AFL is focused on providing secured retail home loans to low- and middle-income borrowers in semi-urban and rural regions, with majority of them having lack of formal income documents. The customers of AFL are a mix of self-employed (60% of AUM as on September 30, 2024) and the remaining 40% as salaried borrowers with majority of them in Tier-2 to Tier-5 cities, thereby exposing the company to the relatively economically-vulnerable borrower segment. Since this segment is highly susceptible to the impact of economic downturn, maintaining good asset quality while increasing the scale of operations is a key sensitivity. The company has put in place adequate credit appraisal mechanisms and integrated MIS systems.

The company has invested substantially in improving and advancing technology, which has led to higher operational expenses. With the transition in technology, the company has implemented Salesforce platform, which earlier started as a pilot project in March 2023, and then launched in April 2023. The company has also added tools like Mule soft which is then blended with their analytical models. With the help of these technological changes, operating efficiency is expected to improve by bringing in standardisation of process across all geographies. Furthermore, it may effectively monitor assets quality and enhance the risk management system. AFL has made transformations in its middle office systems by implementing Oracle Flex Cube and Oracle Fusion on Oracle Cloud to create the system more robust. The company has successfully piloted ChatGPT powered GenAI Chatbot with multilingual support in the customer app thereby improving customer experience. With these implementations, the company plans to see the significant reduction in turnaround time (TAT). Going forward, its ability to scale up the loan book while maintaining asset quality remains key monitorable.

#### **High geographical concentration, though improving**

The company has forayed into Tamil Nadu in Q2FY25 by opening up a branch by contiguous expansion from Karnataka, thereby increasing its presence in South India. While the company has presence in 14 states/ UTs with 372 branches, the state-wise geographic concentration remains high with Rajasthan alone accounting for 33.7% of the AUM as on September 30, 2024, and top three states (Rajasthan, Maharashtra, and Gujarat) together accounting for 66.2% of AUM as on September 30, 2024, reduced from 44% concentration in Rajasthan and 80% concentration in top three states as of March 31, 2019. However, the company has been deepening its presence in the existing states with opening of new branches at district/tehsil level. The geographic concentration is expected to further come down, as the company plans to expand its operations in other geographies. The company plans on growing its disbursements across states like Karnataka, Odisha and Uttar Pradesh and will continue to grow deeper into their existing geographies.

#### **Liquidity: Strong**

AFL has well matched the tenure of its housing loan book and that of its borrowings, rendering liquidity profile of the company very comfortable with no negative cumulative mismatches across the time buckets as on September 30, 2024. As on September 30, 2024, liquidity position of the company stood comfortable with cash & cash equivalents along with un-availed bank lines and CC limits of ₹1,977 crore.

#### **Environment, social, and governance (ESG) risks**

AFL intends to build a strategic approach, where environment, social and governance fundamentals are embedded into the business. For this, it has signed a partnership with IFC, a member of the World Bank Group, for promoting affordable green

homes in India with the help of environmental-friendly architecture of individual homes. About 5,000+ customers have shown interest for building a green home and willingly committed to use one or more green and sustainable measures in their homes.

The company has also aligned its corporate social responsibility (CSR) strategy with Sustainable Development Goals of the 2030-Global Agenda for Sustainable Development adopted by all United Nations (UN) Member States, with extensive initiatives in areas of public healthcare, climate action, rural development, sports and quality education.

## Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Housing Finance Companies](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

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

AFL, a housing finance company, was incorporated in February 2011 as a subsidiary of AU Small Finance Bank (rated 'CARE AA; Stable'). It received the NHB License – Certificate of Registration on August 04, 2011, and commenced operations from March 2012. In June 2016, to comply with the RBI guidelines, AU SFB divested majority of its shareholding to two private equity players – Kedaara Group and Partners Group. As on September 30, 2024, the Kedaara group holds 16.02% stake in AFL, the Partners Group holds 10.87% stake, and the remaining 73.11% is held by the public, including management team of AFL and marquee investors. AFL is engaged in providing retail home loans with focus on affordable housing segment to customers in semi-urban and rural regions. As on June 30, 2024, the company operates through a network of 372 branches in 14 states – Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Delhi, Haryana, Punjab, Chhattisgarh, Uttar Pradesh, Uttarakhand, Himachal Pradesh, Odisha, Tamil Nadu and Karnataka.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	1,305.56	1,610.15	2,020.31	1,123.01
PAT	356.8	430.07	490.69	274.00
Interest coverage (times)	1.95	1.93	1.75	1.73
Total assets*	11,014.59	13,386.00	16,477.64	16,866.81
Net NPA (%)	0.76	0.68	0.67	0.78
ROTA (%)	3.57	3.53	3.29	3.29

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

\*excludes Deferred tax assets and intangible assets

**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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	100.00	CARE A1+
Non Convertible Debentures	INE216P07175	30-Mar-2020	NA	30-Mar-28	444.40	CARE AA; Stable
Non Convertible Debentures	Proposed	-	-	-	500.00	CARE AA; Stable
Non Convertible Debentures	INE216P07217	26-Nov-2021	Repo rate linked	26-Nov-26	99.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	125.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	Sep-30-2031	9537.00	CARE AA; Stable
Non-convertible debenture	INE216P07225	25-Mar-2022	Repo rate linked	25-Mar-2027	100.00	CARE AA; Stable

**Annexure-2: Rating history for 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 2024-2025	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
1	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (10-Oct-24) 2)CARE A1+ (30-Apr-24)	1)CARE A1+ (27-Mar-24) 2)CARE A1+ (05-Jan-24) 3)CARE A1+ (06-Oct-23) 4)CARE A1+ (06-Jul-23)	1)CARE A1+ (21-Mar-23) 2)CARE A1+ (28-Dec-22) 3)CARE A1+ (13-Sep-22) 4)CARE A1+ (05-Apr-22)	1)CARE A1+ (05-Oct-21)

2	Fund-based - LT-Term Loan	LT	9537.00	CARE AA; Stable	1)CARE AA; Stable (10-Oct-24) 2)CARE AA; Stable (30-Apr-24)	1)CARE AA; Stable (27-Mar-24) 2)CARE AA; Stable (05-Jan-24) 3)CARE AA; Stable (06-Oct-23) 4)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)
3	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)
4	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (05-Jan-24) 2)CARE AA; Stable (06-Oct-23) 3)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22)	1)CARE AA-; Positive (05-Oct-21)

							4)CARE AA-; Positive (05-Apr-22)	
5	Debentures-Non Convertible Debentures	LT	23.40	CARE AA; Stable	1)CARE AA; Stable (10-Oct-24) 2)CARE AA; Stable (30-Apr-24)	1)CARE AA; Stable (27-Mar-24) 2)CARE AA; Stable (05-Jan-24) 3)CARE AA; Stable (06-Oct-23) 4)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	1)CARE AA-; Positive (05-Oct-21)
6	Fund-based - LT-Cash Credit	LT	125.00	CARE AA; Stable	1)CARE AA; Stable (10-Oct-24) 2)CARE AA; Stable (30-Apr-24)	1)CARE AA; Stable (27-Mar-24) 2)CARE AA; Stable (05-Jan-24) 3)CARE AA; Stable (06-Oct-23) 4)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22) 3)CARE AA; Stable (13-Sep-22) 4)CARE AA-; Positive (05-Apr-22)	-
7	Debentures-Non Convertible Debentures	LT	420.00	CARE AA; Stable	1)CARE AA; Stable (10-Oct-24) 2)CARE AA; Stable (30-Apr-24)	1)CARE AA; Stable (27-Mar-24) 2)CARE AA; Stable (05-Jan-24) 3)CARE AA; Stable (06-Oct-23)	1)CARE AA; Stable (21-Mar-23) 2)CARE AA; Stable (28-Dec-22)	1)CARE AA-; Positive (05-Oct-21)



						4)CARE AA; Stable (06-Jul-23)	3)CARE AA; Stable (13-Sep- 22)  4)CARE AA-; Positive (05-Apr- 22)	
8	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (10-Oct- 24)  2)CARE AA; Stable (30-Apr- 24)	1)CARE AA; Stable (27-Mar-24)  2)CARE AA; Stable (05-Jan-24)  3)CARE AA; Stable (06-Oct-23)  4)CARE AA; Stable (06-Jul-23)	1)CARE AA; Stable (21-Mar- 23)  2)CARE AA; Stable (28-Dec- 22)  3)CARE AA; Stable (13-Sep- 22)  4)CARE AA-; Positive (05-Apr- 22)	1)CARE AA-; Positive (18-Nov- 21)
9	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	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](mailto:care@careedge.in) for any clarifications.



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### About us:

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