

**Andhra Bank**

October 07, 2019

**Ratings**

<b>Instruments</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>1</sup></b>	<b>Rating Action</b>
Long Term Bonds	500.10	CARE AA (Double A) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Lower Tier II Bonds – Series H	320.00	CARE AA (Double A) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier-II Bonds-Series A (Basel III)	500.00	CARE AA (Double A) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier-II Bonds-Series B (Basel III)	500.00	CARE AA (Double A) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier-II Bonds-Series C (Basel III)	1000.00	CARE AA (Double A) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier-II Bonds-Series D (Basel III)	1000.00	CARE AA (Double A) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Upper Tier II Bonds – Series C	280.00	CARE AA- (Double A Minus) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier I Bonds (Basel III) - Perpetual Bonds	800.00	CARE A+ (Single A Plus) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier I Bonds (Basel III) - Perpetual Bonds - Series III	900.00	CARE A+ (Single A Plus) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Tier I Bonds (Basel III) - Perpetual Bonds - Series IV	500.00	CARE A+ (Single A Plus) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
Certificate of Deposit Programme	15,000	CARE A1+ (A One Plus) (Credit watch with developing implications)	Continues on Credit Watch with developing implications
<b>Total</b>	<b>21,300.10 (Rs. Twenty One Thousand Three Hundred Crore and Ten lakh only)</b>		

*Details of instruments in Annexure-1*

CARE has rated the aforesaid Upper Tier II Bonds (under Basel II) one notch lower than the Lower Tier II Bonds of Andhra Bank in view of their increased sensitiveness to the Bank's capital adequacy ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The ratings factor in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in the payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared with conventional subordinated debt instruments.

Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE has rated the Tier II bonds under Basel III after factoring in the additional feature of PONV.

CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as mentioned below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, coupon may be paid subject to availability of
  - i. Profits brought forward from previous years, and/or
  - ii. Reserves representing appropriation of net profits, including statutory reserves, and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve and reserves created on amalgamation

The accumulated losses and deferred revenue expenditure, if any, shall be netted off from (i) and (ii) to arrive at the available balances for payment of coupon.

- However, payment of coupons on Perpetual Debt Instrument's (PDIs) from the reserves is subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios including the additional capital requirements for Domestic Systemically Important Banks at all times and subject to the restrictions under the capital buffer frameworks.
- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.

Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.

#### **Detailed Rationale & Key Rating Drivers**

The ratings continue to remain on 'Credit watch with developing implications' following the proposal for amalgamation of Andhra Bank and Corporation Bank into Union Bank of India, as per the announcement made by the Ministry of Finance, Government of India and intimation received by Andhra Bank from the Government. Union bank of India would be the anchor bank. The amalgamated bank is likely to be the 5th largest public sector bank in terms of business; post amalgamation. The merger is under process and is subject to regulatory and other approvals.

CARE Ratings would continue to monitor further developments on the proposed amalgamation and would review the ratings in accordance with the progress on the amalgamation process.

The ratings continue to factor in strength derived from majority ownership by the Government of India (GoI), along with continued capital support provided during FY19 with GoI infusing additional Rs.3256 crore during Q4FY19 which consequently resulted in improvement in the capitalization profile as on March 31, 2019; stable growth in deposits and advances, and the ability of the bank to maintain its net interest margin and share of current and savings account (CASA). The ratings also takes into account continued net loss reported by the bank during FY19 (FY refers to the period April 01 to March 31) led by high provisioning, with subsequent profit reported during the quarter ended Q1FY20. Further, the asset quality of the bank continues to remain moderate although the same witnessed improvement during the year, with Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) levels improving to 16.21% and 5.73% as on March 31, 2019 as against 17.09% and 8.48% as on March 31, 2018. The ability of the bank to improve asset quality and capitalization level are the key rating sensitivities.

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

##### **Key Rating Strengths**

**Proposed amalgamation of bank:** The GoI has announced amalgamation/merger of 10 public banks into 4 banks and as a part of the proposal Andhra Bank along with Corporation Bank is proposed to be merged with Union Bank of India with the latter becoming the 5<sup>th</sup> largest bank in India. The amalgamation proposal is underway and is subject to regulatory approvals. Given the number of approval required and timelines to obtain the same and ability of the banks to successfully integrate the operations and attain synergy is likely to take some time. At combined level, all the three banks together have reported total income of Rs.77,012 crore and total business of Rs.13,97,310 crore in FY19.

**Majority ownership and continued capital support by Government of India:** Government of India (GoI) continues to hold majority stake in the bank at 90.85% as on Mar.31, 2019 (as against 77.99% as on March 31, 2018). During Q4FY19, GoI had infused additional capital amounting Rs.3256 crore by way of allotment of shares as part of its recapitalization of Public

Sector Banks (total infusion aggregating Rs.5275 crore during FY19), which resulted in substantial increase in its shareholding. Gol has been supporting public sector banks including Andhra Bank in terms of providing equity capital to maintain regulatory capitalization levels and growth.

The shareholding of Gol stood at 87.81% as on June 30, 2019 at the back of allotment of 10 crore equity shares of Rs.10 each at a premium of Rs.15.68 to employees of the bank under Employees Stock Purchase Scheme (ESPS).

**Long track record of operation:** Andhra Bank has a long track record of more than 90 years, having extensive network of 6687 delivery channels consisting of 2885 branches, 4 extension counters and 3798 ATMs spread over 26 States and 3 Union Territories as on March 31, 2019. Further, the bank also has 44 specialized branches catering to the needs of the specific segments of clientele.

**Improvement in capitalization levels:** The substantial equity infusion by Gol during FY19 consequently resulted in improvement of capitalization profile as on March 31, 2019, as reflected by Capital Adequacy (CRAR) and Tier-I capital ratios, which improved to 13.68% and 10.38% respectively as on March 31, 2019, as against 11.00% and 7.44% respectively as on March 31, 2018. Common Equity Tier I (CET 1) capital ratio improved substantially as on March 31, 2019 and stood at 8.42%, after having breached the Threshold-1 criteria the previous year pertaining to minimum statutory requirement for inclusion in PCA framework for banks (i.e. CET I <6.75% but  $\geq$ 5.125%) at 5.42% as on March 31, 2018. As on March 31, 2019, Andhra Bank's Capital Adequacy was in conformity with the regulatory requirement as prescribed by RBI.

**Moderate growth in advances portfolio during FY19:** Total business (includes total deposits and advances) during FY19 increased by 6.95% y-o-y to Rs.3,98,511 crore (vis-à-vis Rs.3,72,605 crore in FY18). The gross advances portfolio of the bank comprised majorly of large corporates at 37.5% of the total advances; followed by retail credit/personal loans at 22.9%, agricultural loans at 20.7%, MSME loans at 18.4%, and Food credit at 0.5% as on March 31, 2019. While Andhra Bank registered growth in all the segments, gross advances to lower risk retail credit segment witnessed y-o-y growth of 5.2% (to Rs.40,985 crore) as on March 31, 2019. The improvement in the segment was led by substantial growth in the Housing loan portfolio which grew by 12.1% during FY19.

CASA deposits (Current and Savings) of the bank witnessed y-o-y growth of 6.8% to Rs.68,998 crore as on March 31, 2019 led by improvement in savings bank deposits which grew by 8.4% during the year. The proportion of low-cost CASA deposits in total deposits also remained stable during FY19, and improved marginally by 34 bps to 31.39% as on March 31, 2019.

During Q1FY20, the total business of the bank stood at Rs.3,96,979 crore at the back of marginal growth of 0.87% in total advances albeit decline of 1.41% in total deposits.

#### Key Rating Weaknesses

**Continued net loss during FY19 albeit net profit reported in Q1FY20:** During FY19, the total income of the bank remained stable with marginal improvement of 3.1% to Rs.20,977 crore (as against Rs.20,347 crore in FY18). Interest income improved by 5.32%, however, the same was offset by increase in interest expenses by 5.02% in FY19 over FY18. Andhra bank registered operating profit of Rs.5,023 crore in FY19 (as against Rs.5,361 crore in FY18) with Net Interest Margin (NIM) remaining stable at 2.77% (vis-à-vis 2.76% in FY18). However, the bank reported net loss of Rs.2,786 crore during the year (as against net loss of Rs. 3,413 crore in FY18) primarily on account of continued high provisioning for NPA's during the year at Rs.6,674 crore (although declining from Rs. 10,103 crore in FY18) due to y-o-y increase in doubtful-2 and doubtful-3 assets category (particularly in the corporate advances portfolio). However, the bank reported net profit of Rs.51.56 crore on interest income of Rs.4912.13 crore in Q1FY20. The same was at the back of marginal increase in business amid lower provisioning during the period.

**Moderate asset quality albeit improvement during FY19:** The Gross NPA and Net NPA levels improved to 16.21% and 5.73% as on March 31, 2019 as against 17.09% and 8.48% as on March 31, 2018. The marginal improvement was at the back of lower addition of NPAs during the year at Rs.5275 crore as on March 31, 2019 (as against Rs.13,864 crore as on March 31, 2018). While the Net NPA to Networth also witnessed significant improvement from 170.54% as on March 31, 2018 to 91.93% as on March 31, 2019; the same continued to remain weak. High exposure to corporate advances continued to result in high slippages and y-o-y increase in doubtful-2 and doubtful-3 assets category, consequently leading to high provisioning for NPA's at Rs.6685 crore during FY19. The provision coverage ratio of the bank increased to 73.84% as on March 31, 2019 (as against 60.90% as on March 31, 2018).

The Gross NPA (%) and Net NPA (%) reported by Andhra Bank as on June 30, 2019, stood at 16.44% and 5.67% respectively. Further, the provision coverage ratio of the bank increased to 74.45% as on June 30, 2019.

**Liquidity: Strong** - The Liquidity Coverage Ratio (LCR) maintained by the bank stands at 112.09% as on June 30, 2019 as against regulatory requirement of 100%. Further, liquidity of the bank is supported by a healthy retail deposit base. The share of CASA deposit to overall deposit has also been satisfactory at 31.39% as on March 31, 2019 and 31.44% as on June 30,

2019. As per structural liquidity statement of the bank as on June 30, 2019, the bank has negative cumulative mismatches across its time buckets beginning from 1 month. However, the mismatch continues to remain within the limits for various time buckets stipulated by the bank's Board. Further, the bank had excess SLR amounting to Rs.2,709.05 crore as on June 30, 2019, and also has access to Liquidity Adjustment Facility (LAF/MSF) from Reserve Bank of India (RBI) to manage the same.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Rating Outlook and Credit Watch](#)

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

[Criteria for Short Term Instruments](#)

[Bank - CARE's Rating Methodology for Banks](#)

[Rating framework for Basel III instruments \(Tier I & Tier II\)](#)

[Financial Sector - Financial Ratios](#)

#### About the Bank

Andhra Bank is a Hyderabad-based, medium-sized public sector bank which was founded in 1923. The GoI is the majority shareholder with a stake of 87.71% in the bank as on June 30, 2019. As on March 31, 2019, the bank had a wide network of 6687 delivery channels consisting of 2885 branches, 4 extension counters and 3798 ATMs spread over 26 States and 3 Union Territories as on March 31, 2019. Further, the bank also has 44 specialized branches catering to the needs of the specific segments of clientele. The bank also has two representative offices at New Jersey and Dubai. The bank has an insurance joint venture with Bank of Baroda and Legal and General Plc of UK called 'India First Life Insurance Co. Ltd.', in which the bank has a stake of 30%. The bank along with Bank of Baroda and Indian Overseas Bank had entered into a tie-up for setting up a banking subsidiary in Malaysia, wherein it has a 25% stake. The bank has sponsored one Regional Rural Bank (RRB) viz. Chaitanya Godavari Grameena Bank, located in Guntur, Andhra Pradesh.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	20,347	20,977
PAT	(3,413)	(2,786)
Total Assets	2,42,171	2,49,311
Net NPA (%)	8.48	5.73
ROTA (%)	(1.46)	(1.15)

A: Audited

**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 instrument/facilities is given in Annexure-3

**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
Bonds	INE434A08018	August 22, 2014	9.35%	August 22, 2021	500.10	CARE AA (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	INE434A08026	September 16, 2015	8.58%	September 16, 2025	500.00	CARE AA (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	INE434A08034	December 18, 2015	8.63%	December 18, 2025	500.00	CARE AA (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	INE434A08059	June 27, 2016	8.65%	June 27, 2026	1000.00	CARE AA (Under Credit watch with Developing Implications)
Bonds-Tier I Bonds	INE434A08042	February 19, 2016	10.95%	February 19, 2021	800.00	CARE A+ (Under Credit watch with Developing Implications)
Bonds-Tier I Bonds	INE434A08067	August 05, 2016	10.99%	August 05, 2021	900.00	CARE A+ (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	INE434A08075	October 24, 2017	7.98%	October 24, 2027	1000.00	CARE AA (Under Credit watch with Developing Implications)
Bonds-Tier I Bonds	INE434A08083	October 31, 2017	9.20%	October 31, 2022	500.00	CARE A+ (Under Credit watch with Developing Implications)
Bonds-Upper Tier II	INE434A09123	December 18, 2009	8.70%	December 18, 2024	280.00	CARE AA- (Under Credit watch with Developing Implications)
Bonds-Lower Tier II	INE434A09131	December 24, 2009	8.55%	December 24, 2019	320.00	CARE AA (Under Credit watch with Developing Implications)
Certificate Of Deposit	-	-	-	-	15000.00	CARE A1+ (Under Credit watch with Developing Implications)



## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	1)CARE AA+; Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	1)CARE AA+; Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16)
3.	Bonds-Upper Tier II	LT	280.00	CARE AA- (Under Credit watch with Developing Implications)	1)CARE AA- (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA-; Negative (04-Oct-18) 2)CARE AA-; Negative (04-Jun-18)	1)CARE AA; Negative (03-Oct-17)	1)CARE AA; Negative (15-Dec-16) 2)CARE AA (14-Jul-16)
4.	Bonds-Lower Tier II	LT	320.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA; Negative (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	1)CARE AA+; Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16)
5.	Certificate Of Deposit	ST	15000.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A1+ (29-Mar-19) 2)CARE A1+ (26-Feb-19) 3)CARE A1+ (04-Oct-18) 4)CARE A1+ (04-Jun-18) 5)CARE A1+ (03-Apr-18)	1)CARE A1+ (03-Oct-17)	1)CARE A1+ (15-Dec-16) 2)CARE A1+ (14-Jul-16)
6.	Bonds	LT	500.10	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA; Negative (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	1)CARE AA+; Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16)
7.	Bonds-Tier II Bonds	LT	500.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA; Negative (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	1)CARE AA+; Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16)
8.	Bonds-Tier II Bonds	LT	500.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA; Negative (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	1)CARE AA+; Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16)
9.	Bonds-Tier II Bonds	LT	1000.00	CARE AA	1)CARE AA	1)CARE AA;	1)CARE AA+;	1)CARE AA+;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
				(Under Credit watch with Developing Implications)	(Under Credit watch with Developing Implications) (11-Sep-19)	Negative (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	Negative (03-Oct-17)	Negative (15-Dec-16) 2)CARE AA+ (14-Jul-16) 3)CARE AA+ (29-Jun-16) 4)CARE AA+ (21-Jun-16)
10.	Bonds-Tier I Bonds	LT	800.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A+; Negative (04-Oct-18) 2)CARE A+; Negative (04-Jun-18)	1)CARE AA-; Negative (03-Oct-17)	1)CARE AA-; Negative (15-Dec-16) 2)CARE AA- (14-Jul-16)
11.	Bonds-Tier II Bonds	LT	-	-	-	-	-	1)Withdrawn (29-Jun-16) 2)CARE AA+ (21-Jun-16)
12.	Bonds-Tier I Bonds	LT	900.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A+; Negative (04-Oct-18) 2)CARE A+; Negative (04-Jun-18)	1)CARE AA-; Negative (03-Oct-17)	1)CARE AA-; Negative (15-Dec-16) 2)CARE AA- (29-Jul-16)
13.	Bonds-Tier II Bonds	LT	1000.00	CARE AA (Under Credit watch with Developing Implications)	1)CARE AA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA; Negative (04-Oct-18) 2)CARE AA; Negative (04-Jun-18)	1)CARE AA+; Negative (03-Oct-17)	-
14.	Bonds-Tier I Bonds	LT	500.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A+; Negative (04-Oct-18) 2)CARE A+; Negative (04-Jun-18)	1)CARE AA-; Negative (03-Oct-17)	-

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

**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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### Disclaimer

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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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