

Future Enterprises Limited (Revised)

May 13, 2020

Ratings

Bank Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term - Term Loan	550.00	CARE BBB+ (Triple B Plus) (Credit watch with negative implications)	Revised from CARE A (Single A) Continues to be on credit watch with negative implications
Long-term fund based bank facilities – CC	625.00		
Short-term non-fund based bank facilities – LC/BG	602.00	CARE A3+ (A Three Plus) (Credit watch with negative implications)	Revised from CARE A1 (A One) Continues to be on credit watch with negative implications
Total	1,777.00 (Rs. One thousand seven hundred seventy seven crore only)		
Non-Convertible Debenture Issue	2,724.00	CARE BBB+ (Triple B Plus) (Credit watch with negative implications)	Revised from CARE A (Single A) Continues to be on credit watch with negative implications
Fixed Deposit Programme	700.00	CARE BBB+ (FD) (Triple B Plus) (Credit watch with negative implications)	Revised from CARE A (FD) (Single A) Continues to be on credit watch with negative implications
Commercial Paper Issue	-	-	Withdrawn

*Details of instruments/facilities in Annexure-1***Detailed Rationale & Key Rating Drivers**

The revision of ratings assigned to the bank facilities and instruments of Future Enterprises Ltd. (FEL) factors in weakening of business and financial risk profile on account of extended lockdown due to COVID19. CARE expects the recovery to be slow and gradual on account of extension of lockdown given the discretionary spend by the customers towards non-essential items. FEL's key customer Future Retail Limited (FRL), is not allowed to sell fashion products (supplied by FEL), which has resulted in substantial decline in sales in March and April 2020. The company's lease rental payments are also expected to get elongated on account of impact of lockdown on cash flows of FRL.

The ratings also takes into consideration the significant experience of promoters and management team combined with focus on on-going divestments across non-core businesses, improvement in capital structure post acquisition of store assets by Future Retail Limited (FRL) and FEL's focus on new verticals to drive growth. The rating, however, continues to be constrained by high promoter pledge and falling market capitalisation significantly impacting financial flexibility, dependence on group companies for revenue and high working capital cycle.

FEL is seeking a moratorium on payments from its lenders as part of the COVID19 - Regulatory Package announced by the RBI on March 27, 2020. As informed to CARE, in the anticipation of the said approval following the regulatory package by RBI some of the scheduled repayments were deferred by the company as at March 31, 2020. CARE has not recognised this instance as a Default as of now, as the same is permitted by the RBI as part of the relief measures announced recently. As per CARE's discussion with the bankers the approval for deferment has been approved/or is in the process for approval. FEL had interest payment on NCD (INE623B07685 and INE623B07693) due on April 17, 2020 which was made April 22, 2020. As per the communication from the investor the company sought moratorium on NCD interest payment and the same was approved by the investor. The company also had a CP (ISIN INE623B14AW6) (Not rated by CARE) payment aggregating to Rs.100 crore due on April 27, 2020 but the same was delayed and made on April 28, 2020. As per the IPA the company had adequate funds in the account but transaction could not be executed due to delays in banking operations caused by COVID19. Non-recognition of default in the above cases is as per the guidance provided by the SEBI circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated March 30, 2020.

The ratings continue to be on watch negative on account of disruption in operations in its key customer - Future Retail Limited due to COVID19 which could impact the business risk profile resulting in lower operating cash flow. Disruption could also lead to increase working capital requirement which may impact the liquidity position; CARE will continue to monitor the situation and will resolve the watch once the exact implication of the situation on credit profile of FRL is clear.

Key Rating Sensitivities

Positive Factors

- Improvement in capital structure to below 0.75x resulting from equity infusion/ divestment of investments with PBILDT margins at 20%+ on a sustained basis

Negative Factors

- NCDs amounting to Rs.1,250 crore have accelerated prepayment clause in case of rating falling below 'AA-'. Exercising the option to recall bonds may result in severe liquidity issues.
- Delays in divestment of stake in subsidiaries/JVs/Associate companies and/or higher debt resulting in a leveraged capital structure over 1.00x (FY21)
- Inability of the company to scale up new verticals of business leading to deterioration of Total Debt/PBILDT over 3.25x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters & Management: The promoters of FEL have been closely involved in the management of business and in defining & monitoring the business strategy for the company. Mr. Kishore Biyani, the founder and Group CEO of the Future group, is widely recognised as a pioneer of modern retail in India. Furthermore the promoters are supported by a strong management team having significant experience in retail industry.

The company hold stake in various other future group companies with main being in Future Supply Chain Solutions Limited and insurance JV with Future Generali. The company is looking to divest its holdings in various group companies in order to reduce debt.

Significant dependence on group companies: FEL provides infrastructure support to group companies, logistical support through its subsidiary Future Supply Chain Solutions Limited and also designs, manufactures garments for in-house brands and engages in trading for various group companies. Sale of goods and services to its group companies has shown an increasing trend

FEL is reliant on FRL for a significant portion of its income (Rs. 3,838 crore in FY19). FEL's step-down subsidiary, Future Supply Chain Solutions Limited also provides warehousing and logistic requirements to FRL (FY19: Rs. 557.88 crore).

Going ahead, with the proposed acquisition of retail assets from FEL, lease rentals from FRL are expected to come down by Rs. 550-650 crore. However, apart from the infrastructure support, FEL will continue to provide other services to FRL.

Furthermore, FEL and FRL have also provided cross guarantees on behalf of each other for various borrowings to the tune of Rs. 5750 crore and Rs. 3583 crore respectively as on March 31, 2019. These guarantees between both the companies will eventually be withdrawn post the sale of assets and subsequent debt repayment.

Sale of assets to improve capital structure; albeit reduction in rental income: Sale of lease assets to FRL at a fair value of Rs. 3,952 crore and subsequent debt repayment will help the company to improve its capital structure. The company's debt level has already come down from Rs. 6,730 crore (excl. acceptances on LC) as on Dec 31, 2019 to Rs. 5,681 crore as on Feb 29, 2020. However, post the outbreak of COVID19, the company hasn't prepaid the balance debt which has led to leverage remaining high. Furthermore, reduced cash flows and significant dependence on banks for working capital requirements will keep the capital structure under pressure. The company has plans to divest stake in its insurance business as well as logistic business which will lead to further improvement in capital structure upon materialisation.

Consequently, with the sale of assets to FRL, FEL lease rental income from FRL is expected to significantly decline by Rs. 550-650 crore p.a.

The ability of the company to successfully improve capital structure remains critical from credit perspective.

New verticals to drive growth: FEL is almost fully dependant on group companies to drive its growth. The company received 92% of total sales from group companies. Post the sale of assets to FRL, FEL's income is expected to decline by Rs. 550-650 crore and subsequently PBILDT and PBILDT margins are also expected to shrink.

Going ahead, even as group companies continue to remain depended on FEL for their designing, manufacturing and trading requirements, the latter is looking to develop incumbent business and reduce dependence on group companies. The company is looking leverage on data collected through its 'Future Pay' app which has over 16mn members. It will also provide a market place to group companies such as FRL and Future Lifestyle Fashions. FEL is also looking to offer financial services & payments solutions through the app.

The ability of the company to scale the businesses and achieve envisaged results within stipulated timelines remain critical for company's credit profile.

Stretched financial flexibility; considerable promoters' stake pledged: The promoters FEL as of Mar 2018 had pledged 11.64 crore shares (56.56% of promoter stake). During the past year, the company's market capitalisation has declined significantly

from Rs. 1,760 crore to Rs. 521 crore as on May 12, 2020. Falling market capitalisation coupled with rising debt has led to significant deterioration of debt to market-capitalisation from 3.73x as on March 31, 2018 to 3.86x as on March 31, 2019 to current level of ~10.92x.

However, in lieu of significant fall in share price, the promoters had to pledge additional shares taking the total to 92.28% of promoters' stake (as on Dec 31, 2019). Considerable reduction in market capitalisation and significant proportion of promoter's stake pledged hampers the company's flexibility to raise funds.

High Working Capital Cycle: FEL has high gross working capital cycle of 176 days in FY19, which has deteriorated from 157 days in FY18. The reason for high operating cycle is on account of high inventory days. The company buys on behalf of group companies and goods are kept at various retail outlets across the country thereby leading to high inventory period of 16-18 weeks. The company receives payment after 6-7 weeks from sale of goods. Increase in inventory days and growth in operations led to an increase in company's fund based average working capital utilisation (including CP) for the past 12 months ending Feb 2020 to 71% as against 63% during the same period last year.

Intensifying competition in retail industry: Heightened competition from both brick and mortar and online players could impact overall SSSG of FEL's customers. Competition from e-commerce players, remains a key threat. Also, change in FDI norms can lead to further competition. Currently, the government has allowed FDI in food processing sector. Apart from this, the government is also contemplating liberalising rules relating to multi-brand retail. This will open up foreign investments which may pose a threat to existing retail players.

Industry Outlook

In view of the COVID19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, the expected support from the government in terms of financial stimulus packages and wage support subsidy as well as rental waivers from the mall-owners which would help the retailers to bring down their fixed costs, will reduce the impact on their credit profile to an extent. The retailers with presence in essential commodities continue to have some cash flows to support their fixed costs.

After the control of the spread of the coronavirus and post the lock-down period, the spending as well as shopping patterns of the consumers are expected to change significantly. The consumers are likely to curtail their discretionary spending with reduced income in their hands as well as tendency to preserve cash. Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

Liquidity Position: Stretched

The company's liquidity has been severely impacted on account of lockdown measures. The company has applied to the lenders for moratorium as per RBI package. The company has applied to the bankers for enhancement in working capital limits and COVID19 emergency lines. The company has short term obligation of approximately Rs. 550 crore (incl. LCs) due in May and June which is required to be refinanced. The timely release of additional working capital limits remains critical for meeting the short term repayment obligations. The company is also looking at monetising its investments in insurance and supply chain business which would improve the liquidity. However, the timely monetisation remains critical.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Erstwhile Future Retail Ltd. has now been renamed as Future Enterprises Ltd. (FEL) and houses the physical assets (store formats of erstwhile FRL and Bharti Retail Limited including all the infrastructure assets situated in the stores) apart from strategic investments in various companies. The company is also in the business of manufacturing and trading of men's wear, women's wear and kid's wear in denim segment. FEL is also the holding company for future group's various other businesses

Brief Financials – FEL	FY18 (A)	FY19 (A)
Total operating income	4213	4590
PBILDT	1128	1357
PAT	-12.19	24.02
Overall gearing (times)	1.77	2.15
Interest coverage (times)	1.97	2.33

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	625.00	CARE BBB+ (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	602.00	CARE A3+ (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	Jun 2025	550.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07339	24-Jun-16	10.25%	24-Jun-21	16.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07347	24-Jun-15	10.25%	24-Jun-22	24.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07362	29-Jun-16	10.25%	29-Jun-21	24.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07370	29-Jun-16	10.25%	29-Jun-22	36.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07743	03-Jan-19	10.50%	03-Jan-25	250.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07487	16-Feb-17	9.60%	16-Feb-22	106.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07495	16-Feb-17	9.60%	16-Feb-23	159.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07503	20-Mar-17	9.60%	20-Mar-22	130.60	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07511	20-Mar-17	9.60%	20-Mar-23	196.40	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non	27-Mar-17	9.60%	27-Mar-22	133.00	CARE BBB+ (Under Credit

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Convertible Debentures INE623B07529					watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07537	27-Mar-17	9.60%	27-Mar-23	199.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07735	03-Jan-19	10.50%	03-Jan-22	500.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07628	20-Dec-17	9.25%	20-Dec-22	60.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07636	20-Dec-17	9.25%	20-Dec-23	90.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07685	17-Apr-18	9.75%	17-Apr-23	120.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07693	17-Apr-18	9.75%	17-Apr-24	180.00	CARE BBB+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE623B07701	24-Apr-18	10.00%	24-Apr-24	500.00	CARE BBB+ (Under Credit watch with Negative Implications)
Fixed Deposit	-	-	-	700.00	CARE BBB+ (FD) (Under Credit watch with Negative Implications)
Commercial Paper	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Aug-17)
3.	Fund-based - LT-Term Loan	LT	550.00	CARE BBB+ (Under Credit watch with	1)CARE BBB+ (Under Credit watch with	1)CARE A (Under Credit watch with	1)CARE AA-; Stable (03-Oct-	1)CARE AA-; Stable (24-Jan-18)

				Negative Implications)	Negative Implications) (13-May-20)	Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	18)	2)CARE AA-; Stable (17-Aug-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Aug-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)
7.	Debentures-Non Convertible Debentures	LT	325.00	CARE BBB+ (Under Credit watch with Negative Implications)	1)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)
8.	Fund-based - LT-	LT	625.00	CARE BBB+	1)CARE BBB+	1)CARE A	1)CARE	1)CARE AA-;

	Working Capital Limits			(Under Credit watch with Negative Implications)	(Under Credit watch with Negative Implications) (13-May-20)	(Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	AA-; Stable (03-Oct-18)	Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)
9.	Non-fund-based - ST-BG/LC	ST	602.00	CARE A3+ (Under Credit watch with Negative Implications)	1)CARE A3+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18) 2)CARE A1+ (17-Aug-17)
10.	Debentures-Non Convertible Debentures	LT	949.00	CARE BBB+ (Under Credit watch with Negative Implications)	1)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)
11.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)

12.	Debentures-Non Convertible Debentures	LT	950.00	CARE BBB+ (Under Credit watch with Negative Implications)	1)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)
13.	Commercial Paper	ST	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18) 3)CARE A1+ (17-Aug-17) 4)CARE A1+ (20-Apr-17)
14.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18)
15.	Commercial Paper	ST	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18)
16.	Commercial Paper	ST	-	-	1)Withdrawn (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (Under Credit watch with	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18)

						Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)		
17.	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB+ (Under Credit watch with Negative Implications)	1)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18) 2)CARE AA-; Stable (20-Sep-18)	-
18.	Fixed Deposit	LT	700.00	CARE BBB+ (FD) (Under Credit watch with Negative Implications)	1)CARE BBB+ (FD) (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (FD) (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (FD) (Under Watch with Negative Implications) (23-Oct-19) 3)CARE AA- (FD); Negative (23-Jul-19)	1)CARE AA- (FD); Stable (02-Nov-18)	-
19.	Debentures-Non Convertible Debentures	LT	300.00	CARE BBB+ (Under Credit watch with Negative Implications)	1)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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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