Kalpataru Power Transmission Limited
April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	986.50 (enhanced from Rs.879.00 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	10,860.00 (enhanced from Rs.9,360 crore)	**CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)**	**Reaffirmed**
Long Term/Short Term Bank Facilities^	-	-	**Withdrawn**
Total Facilities	**11,846.50 (Rupees Eleven Thousand Eight Hundred Forty Six Crore and Fifty Lakh Only)**		
Outstanding Non-Convertible Debenture Issue *	200.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Outstanding Non-Convertible Debenture Issue *	200.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Proposed Non-Convertible Debenture Issue	200.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**
Commercial Paper Issue (carved out of working capital limits)	250.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Commercial Paper Issue (standalone)	50.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Instruments	**900.00 (Rupees Nine Hundred Crore Only)**		

^withdrawn upon receipt of no due certificate
**Outstanding as on December 31, 2019*
Details of Instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Kalpataru Power Transmission Limited (KPTL) continues to derive strength from its strong and established position in domestic and international transmission and distribution infrastructure (TDI) sector and geographically diversified revenue profile with around 35%-40% of revenues from the overseas market.. Furthermore, KPTL shall benefit through its diversification in infrastructure segment (i.e. railways and pipeline construction) resulting into healthy outstanding order book position of Rs.14,867 crore as on December 31, 2019 thus providing medium term revenue visibility.

The ratings are also well supported by strong financial risk profile of the company marked by growth in the scale of operations, stable profitability and comfortable debt coverage indicators during FY19 (refers to the period from April 01 to March 31) and 9MFY20 (refers to the period from April 01 to December 31).

The ratings also factors in the stake sale announcement of its three power transmission special purpose vehicles (SPVs) – Alipurduar Transmission Limited (ATL; rated CARE A-; Stable), Kalpataru Satpura Transco Private Limited (KSTPL) and Kohima Mariani Transmission Limited (KMTL; rated CARE A-; Stable) which is expected to result into net cash-inflow of approximately Rs.1,000-Rs.1,200 crore in the near term. While KPTL has already divested its entire stake in KSPTL as on December 31, 2019, the stake sale in ATL and KMTL shall be effective in step wise manner post commercial operations date (COD) and fulfillment of certain Condition Precedents. Portion of the proceeds from cash flows will be utilized towards debt reduction, working capital and other business requirements as articulated by management.

The long term rating however continues to remain constrained on account of its working capital intensive nature of operations due to inherent nature of business owing to retention money requirements in majority of the projects, milestone based payment terms in railways and pipeline laying segment and exposure to state transmission companies. Susceptibility of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

the operating profitability to volatile raw-material prices, foreign exchange fluctuation risk, risk related to project execution including securing of right of way (RoW) and exposure to various subsidiaries involved in various non-core businesses also continues to constrain the ratings.

Key Rating Sensitivities

Positive Factors:

- Significant improvement in gross current asset days on sustained basis while improving profitability and maintaining scale of operations.
- Monetization of non-core investment or rationalization of current asset levels leading to improvement in TOL/TNW of around unity on sustained basis.

Negative Factors:

- Higher than envisaged debt either due to large debt funded capex or increase in the working capital borrowings on a sustained basis
- Higher than envisaged support to group entities in the form of equity, loans and advances and or moderation in performance of the subsidiaries
- Slow movement of debtors/delay in realization of debtors resulting into further elongation ofgross current asset days on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established position in domestic TDI market with growing presence in overseas market coupled with increased focus on railways and pipe line segment

KPTL has an established position in the domestic TDI market and is one of the top three leading players in the industry with an execution track record of more than three decades. In addition to its strong position in the domestic market, KPTL has also diversified organically into overseas markets, across Africa, South East and Middle East regions of Asia, Eastern Europe and Americas, Commonwealth of Independent States (CIS) and South Asian Association for Regional Cooperation (SAARC) countries. The export revenue increased to Rs.2,731 crore during FY19 as against Rs.2,373 crore during FY18, and continued to remain stable at 38% of the total operating income during FY19. Furthermore, with acquisition of Linjemontage Sweden, KPTL is expected to strengthen its position in Nordic and European market. In addition, KPTL also has stake in three power transmission assets (stake sale announced for two of the assets) of which two assets are operational i.e. ATL, Jhajjar KT Transco Private Limited (JKTPL; rated CARE A Stable) and while KMTL is at an advanced stage of execution with expected COD around July-August 2020. KPTL has already divested its entire stake in its already operational SPV- KSPTL as on December 31, 2019.

Furthermore, during FY19, KPTL continued its focus on enhancing its technical qualification and execution capacity in railways and pipeline segment which led to increase in the revenue from this segment to Rs.1,421 crore during FY19 as against Rs.1,157 crore during FY18 and which continued to remain stable at around 20% of the TOI during FY19.

Healthy outstanding order book position of the company

KPTL had strong outstanding order book position of Rs.14,867 crore as on December 31, 2019 (2.07x of FY19 TOI; 9MFY19: Rs.14,167 crore). The order book remained diversified with TDI order constituting around 56% (9MFY19: 54%) of the outstanding order book position, followed by railways, oil & gas constituting around 44% of the outstanding order book position (9MFY19: 42%). Most of KPTL's international projects are funded by multilateral development agencies or are covered under letter of credit opened in favour of KPTL, lowering KPTL's counterparty credit risk. Furthermore, in TDI domestic segment which constituted around 14% of the outstanding order book position, the company has increased its focus towards stronger counterparties like Power Grid Corporation of India (PGCIL; rated CARE AAA; Stable/CARE A1+) and reduced its dependence on various State Transmission and Distribution companies.

Strong financial risk profile

The TOI of KPTL registered a y-o-y growth of 24% to Rs.7,188 crore during FY19 backed by strong execution across all the three segments. The operating margins of the company remained stable and range bound at 12.53% during FY19. During 9MFY20, KPTL reported y-o-y growth of 23% in its TOI to Rs.5,723 crore backed by higher growth in railway segment. T&D reported y-o-y revenue growth of 5% during 9MFY20 at Rs.3,400 crore, followed by 5% y-o-y growth in infrastructure at Rs.850 crore. KPTL witnessed traction in railway segment with doubling of revenue to Rs.1,300 crore during 9MFY20. With the change in the job mix towards railway and infrastructure segment the operating margins of the company moderated to 11.38% during 9MFY20.

However, debt coverage indicators continued to remain comfortable during FY19 and 9MFY20 marked by interest coverage of 4.81 times and 5.56 times respectively.

Favourable industry scenario in the long term

The long-term demand outlook for the domestic power transmission infrastructure as well as for railway and oil and gas pipeline industry is expected to be favourable as the Indian government continues to exert significant thrust on these sectors. Huge investments have been planned and massive network interconnectivity is envisaged, with focus on affordability and reliability, including substantial outlays by the state sector for expanding the intra-state transmission infrastructure, in addition to PGCIL's annual capital outlay. Amidst all these developments, on the ground level, issues related to smooth and timely project execution are quite dominant which include challenges such as Right of Way (RoW), land acquisition, environmental and forest clearances, end users (like power plants) not being ready, etc., impacting the project completion timelines. The Indian government envisages addition of 105,580 CKMs of transmission lines and 292,000 MVA of transformation capacity addition between 2017-2022, necessitating a humongous investment to the tune of Rs.260,000 crore. This is expected to result in reasonable opportunities for players like KPTL. Apart from the domestic markets, power infrastructure development is also gaining pace in Middle East and North Africa (MENA) and Commonwealth of Independent States (CIS) regions. Substantial investments have been planned in the transmission sector due to largely underdeveloped power infrastructure and increased power generation in the region.

Further, the Indian government has also envisaged expenditure of around Rs.1.48 lakh crore towards its plans for doubling 18,000 km of the railway network and achieving 100% electrification for the entire railway network by FY2021-22.

Also, with the government's thrust towards city gas distribution and increase in the consumption of natural gas, various policy measures have been taken to keep up with the demand for liquefied natural gas at high levels. With the decline in gas prices over the last few years, the demand for natural gas has increased from various end users, which now contributes around 6% of the overall energy mix. Steps are being taken by oil and gas exploration companies to increase the domestic natural gas production. KPTL, being one of upcoming players in the oil and gas pipeline industry, is expected to benefit from this opportunity. However, KPTL is expected to face short term disruption in operations in light of COVID-19 outbreak and global presence of the company.

Key Rating Weaknesses

Working capital intensive nature of operations

KPTL's operations remained highly working capital intensive, largely due to milestone based payment terms in almost all its contracts as well as retention money being held up by clients till the end of performance guarantee period (12-24 months), a norm inherent to the TDI industry. The receivables of KTPL (including retention money and unbilled revenues) increased from Rs.4,049 crore as on March 31, 2018 to Rs.4,454 crore as on March 31, 2019 resulting into receivable days of 215 days during FY19 (FY18:223 days). Furthermore, change in revenue mix towards railways and pipeline laying which have relatively back ended cash-flows in comparison to T&D segment and delay in payments by some of the domestic T&D customers largely state transmission companies have led to moderation in collection efficiency during FY19 and H1FY20. However, although improved the collection days continued to remain high at 215 days during FY19 as against collection days of 223 days during FY18. Further, gross current asset days despite improvement from 320 days during FY18, continued to remain high at 294 days during FY19.

Going forward, extent of improvement in current asset days through realization of old debtors from weaker state counterparty and higher focus on stronger counterparty in domestic market is key rating monitorable.

KPTL derives flexibility to fund working capital requirement through advances from customers and creditors with back- to -back payment clauses for most of the contracts. However, this resulted in moderate TOL/TNW of 1.40 times as on March 31, 2019.

Exposure to subsidiaries and group companies albeit with expected reduction in exposure going forward post stake-sale

KPTL has infused funds in its subsidiaries and group entities to fund their capex/development plans as well as for augmenting their long-term resources. The funding to these entities exposes KPTL to the risks of businesses carried out by these subsidiaries, involved mainly in infrastructure, construction, real estate and agri-warehousing businesses. The infusion of funds by KPTL is either to fund the initial project development cost or to support subsidiaries where cash generation is inadequate.

KPTL's exposure to its group entities stood at Rs.1,409 crore as on March 31, 2019 which was 45% of the networth as on March 31, 2019. During 9MFY20, KPTL has extended incremental advances of Rs.296 crore to its group companies mainly towards the acquisition of Linjemontage, Sweden and funding to Shree Shubham Logistics Ltd (SSLL; subsidiary of KPTL engaged in agri warehousing business; rated CARE BBB; Stable/ CARE A3) due to delay in procedural approvals in connection with asset monetization plans as well as higher repayment obligations. Furthermore, although the operations of JMC Projects (India) Limited (subsidiary of KPTL engaged in EPC of roads and civil constructions; JMC rated CARE A+; Stable/CARE A1+) have remained self-sustainable in past, JMC's funding requirements are expected to increase moderately due to delay in materialization of fund raising plans, under performance of operational toll projects and higher working capital requirements with sizeable share of private parties in overall revenue. Further, due to current COVID-19 outbreak, achievability of cash flow estimates for Linjemontage is also crucial. Although completion of stake sale transaction of three transmission SPVs is expected to improve KPTL's exposure to subsidiaries in comparison to net worth, going forward performance as well as extent of support requirement to any of these subsidiaries shall be key rating sensitivity.

Susceptibility of operating profitability to volatile raw-material prices and foreign exchange fluctuation risk
A sizeable portion of the international orders of KPTL (65-70% of the total international orders) are on a fixed price basis which exposes it to volatility in raw-material prices. However, KPTL manages the risk to an extent through a mix of back-to-back sourcing of materials and commodity futures along with hedging of its forex position. This protects its profitability to a certain extent from volatility in both material and forex rates.
In the domestic market, most of the TDI orders have a price variation clause linked to applicable industry indices protecting the profitability from volatility in major input prices to a certain extent**.**

Risk of land acquisition/use and clearances in a timely manner across projects in wide geography
KPTL needs to acquire Right of Use (RoU) of land as well as Right of Way (RoW) from private parties as well as government agencies for its infrastructure projects as well as for laying transmission towers. This exposes it to risk of delays in the project execution, if these rights are not obtained in time. In certain cases, if the rights are denied, the path/orientation of the line might have to be changed, resulting in time and cost overrun at times. With growing international presence, KPTL is also exposed to country and political risks associated with execution of its projects in those regions, especially considering its presence in many African and Middle-East Asian countries; albeit the company's Board has a well-defined strategy to mitigate these risks by way of limiting their exposure to a single country, taking ECGC cover, bidding for multilateral agencies funded projects etc.

Liquidity: Strong
Liquidity of the company is marked by strong cash accruals from business operations as against the debt repayment of Rs.157 crore during FY21. The average utilization of the fund based working capital limits was around 67% for the trailing twelve months ended November 2019 while the utilization of the non-fund based limits was around 82% for the trailing twelve months ended October 2019. Further, company had free cash and cash equivalents to the tune of Rs.150 crore as on December 31, 2019 aiding its liquidity position. In addition, net cash inflow of approximately Rs.1,000-Rs.1,200 crore from the stake sale in Transmission Assets is further expected to boost the liquidity position of the company.

Analytical approach:
CARE has analysed KPTL's financial risk profile on a standalone basis while factoring in the equity commitment and cash-flow support required to be extended to its subsidiaries and its various power transmission special purpose vehicles (SPV).
KPTL is flagship entity of the Kalpataru group and substantial portion of the group's business operations vests in it. KPTL through its subsidiaries has invested in diverse businesses like civil & road construction, agri warehousing, real-estate etc.. Further, KPTL has also invested in power transmission assets on build own operate Maintain (BOOM) / DBFOT basis structured in the form of SPVs. Hence, CARE has appropriately factored in KPTL's equity commitment and support required to be extended to its subsidiaries and SPVs in the form of equity commitment, advances towards shortfall and cost over-runs as well as guarantees, if any.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring linkages in ratings
Financial Ratios: Non-Financial Sector
Policy on Withdrawal of Ratings

About the Company
Promoted by Mr. Mofatraj Munot in 1981, KPTL is one of the top three players in the domestic TDI sector. Presently, it operates in TDI segment, infrastructure segment (which includes laying oil and gas pipelines and railway construction) while the balance was contributed by others including power generation through bio-mass. KPTL's manufacturing facilities for

transmission tower structures are situated at Gandhinagar in Gujarat and Raipur in Chhattisgarh with a combined installed capacity of 180,000 metric tonne per annum (MTPA) as on March 31, 2019. In addition to its TDI business, KPTL has also diversified inorganically by acquiring majority stake in JMC Projects (India) Ltd. (JMC – 67% equity holding of KPTL as on December 31, 2019) engaged in diversified construction activities and Shree Shubham Logistics Ltd. (SSLL – 100% holding as on December 31, 2019 post buy out of equity holding of Tano India Equity fund in a non-cash transaction) engaged in agri-warehousing and allied activities. Further, to support the operations of SSLL, the company has diversified into funding of commodity and non-commodity working capital through acquisition of Punarvasu Financial Services Pvt. Ltd. (PFSPL; 100% stake through SSLL), a non-banking financial company, in Q3FY15.
In addition to the above, KPTL has also ventured into asset ownership in power transmission sector through its three SPVs, and in the road construction sector through JMC and its four SPVs. Further, KPTL has invested in real estate projects through its wholly-owned subsidiaries, Energylink (India) Ltd. (EIL) and Amber Real Estate Ltd. (AREL).

Brief Financials (Rs. crore) – Standalone	**FY18 (A)**	**FY19 (A)**
Total operating income	5,789	7,188
PBILDT	763	900
PAT	322	401
Overall gearing (times; including mobilization advances)	0.38	0.32
Interest coverage (times)	4.09	4.81

A – Audited

As per the provisional results published for 9MFY20, KPTL reported a total operating income of Rs.5,723 crore (9MFY19: Rs. 4,667 crore) with PAT of Rs.356 crore (9MFY19: Rs.265 crore).

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	-	925.00	CARE AA; Stable
Non-fund-based-LT/ST	-	-	-	-	697.90	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.00	Withdrawn
Non-fund-based-LT/ST	-	-	-	-	10162.10	CARE AA; Stable / CARE A1+
Term Loan-Long Term	-	-	-	September 30, 2022	61.50	CARE AA; Stable
Non-Convertible Debentures (NCD – VI)	INE220B08035	March 17, 2017	7.90% p.a.	May 15, 2020	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – VII)	INE220B08043	May 25, 2017	8.45% p.a.	May 25, 2022	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – VIII)	INE220B08050	September 27, 2017	8.11% p.a.	September 27, 2022	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – IX)	INE220B08068	September 12, 2018	Zero coupon	March 11, 2022	50.00	CARE AA; Stable
Non-Convertible Debentures (NCD –	INE220B08076	September 12, 2018	Zero coupon	September 12, 2022	50.00	CARE AA; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
IX)						
Proposed Non-Convertible Debentures (NCD)	-	-	-	-	-	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 to 364 days	50.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	7 to 364 days	250.00	CARE A1+

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.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (23-Jan-17)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	250.00	CARE A1+	-	1)CARE A1+ (07-Dec-18)	1)CARE A1+ (07-Sep-17)	1)CARE A1+ (23-Jan-17)
3.	Fund-based-Long Term	LT	925.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)
4.	Non-fund-based-LT/ST	LT/ST	697.90	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Dec-18)	1)CARE AA; Stable / CARE A1+ (07-Sep-17)	1)CARE AA; Stable / CARE A1+ (23-Jan-17)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	1)CARE AA; Stable / CARE A1+ (07-Dec-18)	1)CARE AA; Stable / CARE A1+ (07-Sep-17)	1)CARE AA; Stable / CARE A1+ (23-Jan-17)
6.	Non-fund-based-LT/ST	LT/ST	10162.10	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Dec-18)	1)CARE AA; Stable / CARE A1+ (07-Sep-17)	1)CARE AA; Stable / CARE A1+ (23-Jan-17)
7.	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (07-Dec-18)	1)CARE A1+ (07-Sep-17)	1)CARE A1+ (23-Jan-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Nov-18)	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)
9.	Term Loan-Long Term	LT	61.50	CARE AA; Stable	-	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)
10.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)
11.	Debentures-Non	LT	100.00	CARE	-	1)CARE AA; Stable	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
	Convertible Debentures			AA; Stable		(07-Dec-18)	Stable (07-Sep-17)	
12.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Dec-18)	1)CARE AA; Stable (07-Sep-17)	-
13.	Proposed Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	-	-	-	-

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. : +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Maulesh Desai
Contact no: +91-79-40265605
Email ID: maulesh.desai@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. : +91-79-40265656
Email ID: Deepak.prajapati@careratings.com

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