

Quippo Oil & Gas Infrastructure Limited

September 4, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹ @	Rating Action
Long-term Bank Facilities	55.00	CARE BBB+ (CE); Stable [Triple B Plus (Credit Enhancement)]; Outlook: Stable]	Removed from Credit Watch; Revised from CARE A (CE); Credit Watch with Negative Implications [Single A (Credit Enhancement); Credit Watch with Negative Implications]
Long/Short Term Bank Facilities	65.00	CARE BBB+ (CE); Stable/CARE A3+ (CE) [Triple B Plus (Credit Enhancement)]; Outlook: Stable/A Three Plus (Credit Enhancement)]	Removed from Credit Watch; Revised from CARE A (CE)/CARE A2+ (CE); Credit Watch with Negative Implications [Single A (Credit Enhancement)/A Two Plus (Credit Enhancement); Credit Watch with Negative Implications]
Total	120.00 (Rs. One Hundred Twenty Crore only)		

Details of facilities in Annexure-1

@backed by credit enhancement in the form of unconditional and irrevocable guarantee of Srei Equipment Finance Ltd

Unsupported Rating ²	CARE BB/A4+ (Double B/A Four Plus)
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The aforesaid ratings for the bank facilities of Quippo Oil & Gas Infrastructure Limited (QOGIL) is primarily based on the credit enhancement in the form of 'unconditional and irrevocable corporate guarantee' extended by Srei Equipment Finance Ltd (SEFL, rated CARE BBB+; Stable/CARE A3+) for the entire debt servicing obligation (i.e. payment of interest and/or other charges and principal repayment) during the full tenure of the facility.

The revision in the ratings assigned to QOGIL follows a revision in the ratings of SEFL.

Detailed Rationale & Key Rating Drivers of SEFL

The ratings assigned to SEFL were on credit watch with negative implications due to the absence of clarity on the validity of the transfer of the Lending Business, Interest Earning Business & Lease Business ("Transferred Undertaking") of Srei Infrastructure Finance Limited (SIFL) into SEFL, besides expectation of reduced granularity of the book and weaker capitalisation and overall gearing post completion of the transfer.

The rating watch also factored in the uncertainty emerging with respect to cash flows being available to SEFL with disbursements and collections impacted post announcement of nationwide lockdown due to outbreak of Covid-19 since March 25, 2020.

SEFL had given effect to the slump exchange of assets of SIFL in its accounts for the quarter ended December 31, 2019 with appointed date of October 1, 2019. However, the statutory auditor had mentioned in the limited review report for Q3FY20 that SEFL had given impact to the slump exchange w.e.f October 1 2019, though the consent from all lenders of SIFL had not been obtained.

The statutory auditor of SEFL in the audit report for the quarter ended March 31, 2020 has now given emphasis of matter that the company and SIFL have accounted for the slump exchange w.e.f October 1, 2019 after receiving approval from shareholders, debenture trustees, few lenders, stock exchanges and in-principle approval from some of the domestic lenders including lead banks. The consent or otherwise of other lenders is still awaited. The company has also taken expert legal and accounting opinions which confirm that the accounting treatment so given is in accordance with relevant IND AS and the underlying guidance and framework.

CARE has relied on the published financials of the company along with the audit report. The credit watch has been removed after analyzing the impact of the slump exchange on the credit risk profile of SEFL.

The revision in the ratings takes into account the reduced granularity of the loan book of SEFL post the slump exchange and deterioration in capitalisation. The loan book of SIFL was largely wholesale in nature with big ticket size advances

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

²As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019

having long tenure in the infrastructure sector. The advances of SIFL were to companies which are involved into execution of infrastructure projects where the gestation period is long and accordingly has weaker financial profile. Some of these have low coupons with higher returns expected on maturity and have accordingly impacted the yield of SEFL. Also, SIFL had significant advances to projects under the same management or related to the group.

CARE takes note of the fact that the loan portfolio of SIFL transferred to SEFL is on dilution track. Liquidation of these exposures in a timely and profitable manner to improve capitalisation and profitability remain crucial.

The ratings assigned to SEFL also take into account the continued stressed asset quality, limited availability of liquidity buffers with concentrated resource profile and net loss reported in Q4FY20 (refers to the period January 1 to March 31) mainly due to lower yield and increase in credit cost.

Furthermore, the ratings continue to factor in the significant increase in cost of funds in FY20 (refers to the period April 1 to March 31) amidst subdued resource mobilisation scenario and reduced proportion of lower cost short term borrowings to manage liability maturity profile.

The ratings also factor in the expected additional stress on asset quality in the current year due to nation-wide disruptions caused by the outbreak of covid-19. The company has offered moratorium to its customers in terms of the Covid-19 Regulatory Package of the Reserve Bank of India. Though the collections have witnessed gradual improvement since April 2020, a large part of the portfolio of the company continues to remain under moratorium. Considering the challenges in deployment posed by the ongoing pandemic and slow movement in infrastructure projects, the ability of the borrowers to pay on time remains to be seen once the moratorium is over by end of August 2020. Further, the company only has the option of restructuring as per RBI guidelines in its assets and not in liabilities which might impact the Asset Liability Maturity (ALM) profile. The company has also availed moratorium from its lenders.

The ratings continue to derive strength from the company's established position and expertise in construction and mining equipment (CME) financing segment, experienced promoters, well-established business network with large customer base, presence of the group in the industry across the value chain and sizable loan Assets under Management (AUM).

Rating Sensitivities

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

- Substantial Improvement in profitability by reducing cost of borrowings, credit costs and opex cost.
- Improvement in overall gearing to below 6x and overall Capital Adequacy Ratio (CAR) above 18% on a sustained basis.
- Reduction in total vulnerable assets as a percentage of networth to below 30% on a sustained basis.

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

- Further deterioration in Overall CAR and increase in overall gearing.
- Further increase in total vulnerable assets to networth.
- Further decline in profitability.
- Reduction in available bank lines impacting liquidity.

Key Rating Drivers of QOGIL

The unsupported ratings assigned to QOGIL are constrained by the low profitability, weak capital structure and debt coverage indicators, foreign exchange fluctuation risk, high working capital intensity of operations and risk associated with tender based nature of operations.

The rating, however, draws strength from experienced promoters, increasing scale of operations and reputed clientele of the company. The company has not availed moratorium under the Covid-19 Regulatory Package for its bank borrowings.

Detailed description of the key rating drivers of SEFL

Key Rating Strengths

Experienced promoter group and management

SEFL commenced its present operations in January 2008, when SIFL transferred its equipment finance and leasing business to it on forming a 50:50 joint venture in SEFL with BNP Paribas Lease Group (BPLG). SIFL had experience of leasing and hire-purchase/hypothecation financing of heavy construction equipment and financing of infrastructure related projects of about three decades. The promoters of SREI group, Mr Hemant Kanoria (Chairman) and his brother Mr Sunil Kanoria (Vice Chairman) have over three decades of business experience in the financial sector. The company also benefits significantly from the experience of its MD, Mr. D. K. Vyas.

Well established business network

The group has well established business network with 85 branches, 77 satellite locations across 21 states in the country. The group has 272 vendor & manufacturer partnerships along with 149 Srei Entrepreneur Partners. Furthermore, the group has presence across the value chain in construction and mining equipment industry. SEFL has established presence in the CME financing space and had a net loan AUM of Rs.38,709 crore as on March 31, 2020. The company has also tied-up with number of lenders for co-lending, on-lending and sole-lending.

Sizable loan AUM

The combined disbursements made by SEFL (including SIFL) was significantly lower at Rs.13,586 crore in FY20 as against Rs.21,229 crore (Rs.13,972 crore in SEFL and Rs.7,257 crore in SIFL) in FY19. The disbursements were lower primarily to restrict growth for maintaining regulatory CAR and increased focus on co-lending. The disbursement through co-lending model was Rs.970 crore in FY20. Further, with liquidity crisis in the NBFC sector resource mobilisation was also impacted. The disbursements were also lower with infrastructure loan book on dilution track.

However, the company continues to have a sizeable AUM. With completion of slump exchange from SIFL, the net Loan AUM (incl. off-book assets) increased and stood at Rs.38,709 crore as on March 31, 2020 as against Rs.29,229 crore as on March 31, 2019.

Key Rating Weaknesses**Reduced granularity of loan portfolio of SEFL after slump exchange**

The loan book of SIFL was largely wholesale in nature with big ticket size advances having long tenure in the infrastructure sector. Also, SIFL had significant advances to projects under the same management or related to the group.

The advances of SIFL were to companies which are involved into execution of infrastructure projects where the gestation period is long and accordingly has weaker financial profile. Some of these generate low returns and the company expects to achieve higher return in the long term in view of long gestation period involved in such projects.

The loan portfolio of SIFL transferred to SEFL is on dilution track. The ability of these companies to yield commensurate returns, as also SEFL's ability to liquidate these exposures in a timely and profitable manner remains crucial as the same has impacted its capitalisation and profitability profile.

Pursuant to the slump exchange, the top 20 advances of SEFL increased to 29% of net advances (excl. operating lease) as on March 31, 2020 as against 19% as on March 31, 2019.

Net loss incurred in Q4FY20

The company had achieved PAT of Rs.51 crore on total income of Rs.999 crore in Q3FY20 excluding the impact of the merger. The slump exchange was w.e.f. October 1, 2019 and the company had published the Q3FY20 financials on the basis of the merged loan book. SEFL reported net profit of Rs.55 crore on total income of Rs.1,376 crore during Q3FY20. However, the q-o-q performance of SEFL witnessed deterioration with the company reporting net loss Rs.84 crore on total income of Rs.1,599 crore. The loss in Q4FY20 despite increase in total income (primarily due to other income) was primarily on account of substantial increase in operating costs and credit costs during the period.

SEFL's total income increased by 16% from Rs.4,378 crore in FY19 to Rs.5,079 crore in FY20 with increase in interest income, income from securitization and other operating income.

The increase in interest income of company was primarily on account of impact of interest income of SIFL loan book in H2FY20. However, the yield on advances declined from 17.07% in FY19 to 15.25% in FY20. The interest cost of the company increased significantly in FY20 due to both increase in borrowings with impact of slump exchange and increase in cost of borrowings given subdued resource mobilization scenario and reduced short term lower cost borrowings to manage liquidity.

Thus, Net Interest Income (NII) of the company decreased from Rs.1,906 crore in FY19 to Rs.1,423 crore in FY20. The interest spread declined from 6.52% in FY19 to 3.80% in FY20. NIM also declined significantly from 7.41% in FY19 to 4.48% in FY20. The impact is also due to lower average yield and NIM in loan book of SIFL. The spread is lower in SIFL's loan book because it has low interest rate loans (high gestation infrastructure financing) with IRR at maturity not lower than a predetermined profitable rate of return. Accordingly, on merger of loan book of SIFL the profitability of SEFL has been adversely impacted.

The operating expenses remained relatively stable during the year and Opex as a percentage average total assets reduced from 4.69% in FY19 to 3.75% in FY20 due to increase in total assets pursuant to slump exchange.

With lower NII and stable operating expenses the Pre-provisioning operating profit of the company decreased from Rs.989 crore in FY19 to Rs.830 crore in FY20. Further, the provisions/write-offs for the year increased significantly from Rs.532 crore in FY19 to Rs.730 crore in FY20.

With lower PPOP and significant increase in credit costs, the PAT was significantly lower at Rs.56 crore in FY20 vis-à-vis Rs.306 crore in FY19.

Consequently, the return indicators i.e. ROTA and RONW also deteriorated.

Continued stressed asset quality

The asset quality of SEFL had witnessed improvement during 9MFY20, wherein, Gross and Net Stage III assets percentage stood at 5.89% and 3.89% respectively as on December 31, 2019 as against 8.38% and 6.70% respectively as on March 31, 2019. Total vulnerable assets to networth though remained high, had improved to 44.54% as on December 31, 2019 without considering the impact of the slump exchange.

However, with transfer of loan book of SIFL and high level of stage III assets in SIFL, the Gross and Net Stage III assets increased significantly from Rs.1,041 crore and Rs.673 crore respectively as on December 31, 2019 to Rs.3,325 crore and

Rs.2,192 crore respectively as on March 31, 2020. Accordingly, despite simultaneous increase in loan portfolio (with transferred portfolio of SIFL), the Gross stage III and Net Stage III percentage deteriorated from 5.89% and 3.89% respectively as on December 31, 2019 to 10.51% and 7.19% respectively as on March 31, 2020.

Assets held under repossession/acquired in lieu of satisfaction of debt though decreased from Rs.663 crore as on December 31, 2019 to Rs.476 crore as on March 31, 2020; the total vulnerable assets (net stage III + assets acquired in satisfaction of debt and repossessed assets) increased from Rs.1,336 crore as on December 31, 2019 to Rs.2,668 crore as on March 31, 2020. The total vulnerable assets as a percentage of networth deteriorated from 44.54% as on December 31, 2019 to 68.62% as on March 31, 2020. The stage III provision coverage ratio of SEFL stood at 34.06% as on March 31, 2020.

Furthermore, the loan portfolio of SEFL now includes larger ticket size wholesale exposures of SIFL in infrastructure sector, which exposes the company to higher risk of delinquencies along with higher time and effort in recovery and resolution of such exposures.

With impact of Covid-19 and moratorium available to the customers, the monthly collections of the company have been significantly impacted. Though the collections have witnessed an improving trend since April'20; the collection efficiency for July'20 was around 50% (considering average monthly collections in normal scenario). Consequently, around 50% of the loan portfolio of SEFL appears to be under moratorium. Thus, with moratorium period about to finish at end of August'20, the subdued collections may result in further stress on asset quality of the company.

Leveraged capital structure

The tangible networth of SEFL increased from Rs.2,901 crore as on March 31, 2019 to Rs.3,888 crore as on March 31, 2020 primarily on issuance of equity shares of Rs.955 crore to SIFL as lump sum consideration for business transfer. However, the capitalisation of the company continued to remain on the lower side due to simultaneous increase in risk weighted assets with assets acquired of SIFL under slump exchange. Tier I and overall CAR deteriorated from 11.72% and 16.08% respectively as on March 31, 2019 to 11.35% and 15.65% respectively as on March 31, 2020 (as against regulatory requirement of 10% and 15% respectively).

The capital structure also continued to remain leveraged and overall gearing further deteriorated from 7.31x as on March 31, 2019 to 8.11x as on March 31, 2020.

The company, to manage its capital adequacy and leverage, is expecting to accomplish higher volumes of assignment/portfolio sale and resorting to co-lending model.

Concentrated resource profile

The resource profile of SEFL as on March 31, 2020 remained concentrated with term loans and working capital from domestic banks constituting 65% of the total borrowings as compared to 52% of the total borrowings as on March 31, 2019. The term loans from domestic FIs and foreign currency loans accounted for 14% as on March 31, 2020 as against 22% as on March 31, 2019. Capital markets instruments such as NCDs, subordinated debt and CPs accounted for 17% as on March 31, 2020 as against 19% as on March 31, 2019. The borrowing from securitisation through PTC route stood at 3% as on March 31, 2020 as against 6% as on March 31, 2019. The commercial paper share remained low at 1%. The company also had borrowings in the form of ICDs with share of 1% as on March 31, 2020.

Though the company has been successful in rolling over cash credit on a continuous basis, there is need to reduce dependence on bank borrowings and diversify resource profile. Access to securitisation market supports the funding requirements of the company.

The company had eligible pools of about Rs.2,700 crore for direct assignment under Partial Guarantee Scheme (PCG). The company had done assignments to the tune of Rs.5,474 crore in FY20. The company has not raised any debt in the current financial year even though it has sanctions in hand and has relied on sell downs/foreclosures.

Subdued scenario in NBFC sector

The outlook for NBFCs for short to medium term is negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions over the last two years, could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. The measures announced by the RBI like the Targeted Long Term Repo Operations 2.0 (TLTRO-2), special refinance facility, partial guarantee scheme, and special liquidity scheme, etc. could provide some solace to the NBFCs. However, the sector continues to stare at asset side challenges with expected increase in delinquencies going forward after the moratorium period is over. Further, the option to restructure liabilities is not available to NBFCs, though they might have to restructure assets.

Liquidity: Adequate

The ALM statement as on March 31, 2020 submitted by SEFL reflects that assets maturing in upto one year bucket exceeds the corresponding liabilities and the company had cumulative surplus of Rs.1,790 crore in upto 1 year bucket. However, the company has not factored in the impact of the moratorium on collections. Furthermore, if the maturity of fund based working capital falling under more than 1 year bucket is categorized under 6-12 months bucket, then there

will be a negative mismatch in the 181-365 day time bucket of Rs.14,042 crore and a cumulative negative mismatch of Rs.12,286 crore in upto 1 year bucket. However, considering that working capital facilities from banks are renewed on a year to year basis and therefore are revolving in nature; the liquidity profile appears adequate.

The collections of the company have witnessed month on month improvement since April 2020 and at the present level can meet the interest and repayment obligations. The company does not maintain significant liquidity in the form of free cash and liquid investments. The average utilization of fund based limits for the last twelve months ended March'20 remained high at 96%. The company as on August 18, 2020 had liquidity buffer of around Rs.400-450 crore in form of liquid investments, current account balance and un-utilised fund based working capital lines. Further, the company also has presence in the securitization market which supports liquidity. The company has not mobilised any debt in the current financial year even though it has sanctions in hand of around Rs.2,500 crore and has relied on sell downs/foreclosures.

The company has availed moratorium under the Covid-19 Regulatory Package of the Reserve Bank of India for its bank borrowings.

Analytical approach:

For CE Rating: The ratings are based on the assessment of SEFL, the entity providing credit enhancement for rated debt of QOGIL.

SEFL has been assessed on a standalone basis (including the impact of transferred assets/liabilities from SIFL).

For unsupported rating: Standalone

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology- Non Banking Finance Companies \(NBFCs\)](#)

[Financial ratios –Financial Sector](#)

[Financial Ratios - Non Financial Sector](#)

[Criteria for Rating Credit Enhanced Debt](#)

About the Company - SEFL

SEFL was incorporated on June 13, 2006, under the name of 'Srei Infrastructure Development Ltd.' as a subsidiary of Srei Infrastructure Finance Ltd for financing and development of infrastructure projects. In April 2008, SEFL was converted into a 50:50 JV company with BNP Paribas Lease Group (BPLG; a 100% subsidiary of BNP Paribas Bank) and SIFL divested its equipment financing and leasing business along with all the assets & liabilities to SEFL as on January 1, 2008. In September 2008, RBI classified SEFL as a "Systemically Important Non-deposit Taking Asset Finance Company". In June 2016, SIFL acquired the 50% stake of BPLG in SEFL and it became a 100% subsidiary of SIFL. SEFL is engaged in leasing and hire-purchase financing/hypothecation of construction & mining and allied equipment, tipper & allied equipment, IT & allied equipment, medical & allied equipment, farm equipment and loans against property.

The Lending Business, Interest Earning Business & Lease Business of SIFL has also merged with company w.e.f October 1, 2019 pursuant to the slump exchange.

Brief Financials (Rs. crore)	FY19 (A)	FY20* [^]
Total income	4,378.04	5,079.43
PAT	306.38	55.91
Interest coverage (times)	1.21	1.03
Total Assets	26,603.94	37,006.61
Net Stage III (%)	6.70	7.19
ROTA (%)	1.19	0.18

A: Audited

*based on published abridged results

[^]the results for FY20 are not comparable to prior period as slump exchange was with effect from October 1, 2019.

About the Company - QOGIL

QOGIL, which began operations in 2005, is a part of Quippo group (Promoted by Kanoria family of Srei group) having established position in the business of renting of infrastructure equipment servicing the high growth verticals of construction, oil & gas, telecom and energy. QOGIL is an Onshore Rig Service provider with an international presence. QOGIL's primary focus is on providing drilling rigs equipped with the latest technology, equipment, and world class crew. Most of the rigs are equipped with top drives to undertake highly specialized drilling operations in technically challenging environment.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	191.86	283.87
PBILDT	13.15	24.84
PAT	4.37	3.22
Overall gearing (times)	NM	NM
Interest coverage (times)	0.59	1.02

A: Audited, NM: Not Meaningful

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 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-Cash Credit	-	-	-	55.00	CARE BBB+ (CE); Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	65.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BB / CARE A4+

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-Cash Credit	LT	55.00	CARE BBB+ (CE); Stable	-	1)CARE A (CE) (Under Credit watch with Negative Implications) (06-Mar-20) 2)CARE A- (CE) (Under Credit watch with Negative Implications) (19-Aug-19)	1)CARE A+ (SO) (Under Credit watch with Developing Implications) (11-Mar-19) 2)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)
2.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (06-Mar-20) 2)CARE A- (CE) (Under Credit watch with Negative Implications) (19-Aug-19)	1)CARE A+ (SO) (Under Credit watch with Developing Implications) (11-Mar-19) 2)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	65.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)	-	1)CARE A (CE) / CARE A2+ (CE) (Under Credit watch with Negative Implications)	1)CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)	-

						(06-Mar-20) 2)CARE A- (CE) (Under Credit watch with Negative Implications) / CARE A2+ (CE) (Under Credit watch with Negative Implications) (19-Aug-19)	(11-Mar-19) 2)CARE A+ (SO) / CARE A1+ (SO) (06-Jul-18)	
4.	Un Supported Rating- Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BB / CARE A4+	-	1)CARE BB / CARE A4+ (06-Mar-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

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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About CARE Ratings:

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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.