

## TVS Motor Company Limited

October 07, 2020

### Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	660.59 (Enhanced from 211.42)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	250.00 (Reduced from 350.00)	CARE AA+; Stable / CARE A1+ (Double A Plus ; Outlook: Stable / A One Plus)	Reaffirmed
Short Term Bank Facilities	100.00	CARE A1+ (A One Plus)	Assigned
Short Term Bank Facilities	400.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Facilities</b>	<b>1,410.59</b> <b>(Rs. One thousand four hundred ten crore and fifty nine lakh only)</b>		
Commercial Paper	400 (Rs. Four hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed
Non-Convertible Debenture issue	500 (Rs. Five hundred crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of TVS Motor Company Limited (TVSM) continue to draw strength from the long track record of operations of TVSM with an established presence in the two-wheeler industry across all the product segments, geographically diversified revenue stream, experienced management team, moderate leverage levels and comfortable debt protection metrics.

The ratings are constrained by relatively low profit margin, significant exposure to its subsidiaries and highly competitive industry scenario.

### Rating Sensitivities

#### Positive Factors

- Significant improvement in profit margins supported by sizeable improvement in market share on sustained basis along with reduction in exposure to group companies

#### Negative Factors

- Any significant deterioration in the performance of Subsidiaries/Associates where TVSM has significant exposure.
- Significant decline in market share and profitability on sustained basis

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Part of the TVS group, one of the leading groups in the Indian Auto & Auto components industry**

TVS Motor Company Limited (TVSM) is one of the leading two-wheeler manufacturers in India and is the flagship company of the TVS group, one of the leading groups in the Indian Auto & Auto ancillary industry. TVSM manufactures wide range of two-wheelers and three-wheelers from its facilities located at Hosur (Tamil Nadu), Mysore (Karnataka) and Nalagarh (Himachal Pradesh). Sundaram Clayton Limited, leading manufacturer of aluminum die-casting components for automotive applications, is the majority shareholder in TVSM (holding 57.40% stake).

##### **Established presence in the two-wheeler industry with presence across product segments:**

TVSM has over the years established itself as a leading player in the two-wheeler industry and is the only company to have presence in all the three categories i.e., motorcycles, scooters and mopeds in domestic market. TVSM is the only company to have presence in moped segment for domestic market.

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

### Two wheeler category wise share for domestic market and TVSM

Domestic Contribution (%)	2W Industry						TVSM					
	FY15	FY16	FY17	FY18	FY19	FY20	FY15	FY16	FY17	FY18	FY19	FY20
Motorcycle	67.1	65	63.1	62.5	64.2	64.4	31.6	32.2	31.1	31.9	32.4	31.3
Scooter	28.2	30.6	31.9	33.3	31.6	31.9	32.5	35.0	33.2	38.2	39.6	42.2
Mopeds	4.7	4.4	5.1	4.3	4.2	3.7	35.8	32.8	35.8	29.9	28.1	26.4

Source: CMIE

In domestic 2 Wheeler (2W) market, although the scooter's share has been increasing to the total 2W due to gender neutral image and strong urban demand till FY18, it had remained almost flat around 32% in the past two years ended March 2020. Scooter category share has now stands at 31.9% to the total two wheelers in FY20.

In respect of TVSM, Scooters contributed to 42.2%, Motorcycle contributed to 31.3% and Mopeds to 26.4% of 2W sales volume in FY20. TVSM has strong presence in the scooter segment through Jupiter, N-Torque, Zest, Scooty Pep+, etc and is second largest player in domestic scooter segment.

In respect of motorcycles, the premium segment (150cc and above) has been one of the faster-growing motorcycle segments whose share has increased to 21.5% to the total motorcycle industry volume in FY20 from 16.11% in FY14.

TVSM has a strong presence in Premium (151-200cc) category through Apache RTR (160, 180, 200 cc variants) and is market leader in Premium (151-200cc) category with 48% market share in FY20. TVSM has 24% market share in overall Premium Segment (150cc and above).

### Electric two wheelers

Share of electric 2W in total industry volume stood very low at 0.9 % in FY20. TVSM has been continuously investing in R&D which is focusing on technology and product development. As a result, TVSM has launched its first electric scooter TVS I-Qube in January 2020. TVSM has first launched TVS I-Qube in Bengaluru and will gradually increase its presence in PAN India. Also the company has invested around Rs.16 crore in Ultraviolette Automotive Private Limited, Bengaluru based start-up company engaged in developing electric mobility solutions.

### Consistent outperformance in growth as compared to 2W industry till FY19, however drop reported in FY20

Two wheeler	Growth Rate (Domestic + export) (%)							Jul-Aug 2020
Growth Rate (%)	FY15	FY16	FY17	FY18	FY19	FY20	Q1FY21	
<b>2W Industry</b>	<b>9.1</b>	<b>2.7</b>	<b>5.2</b>	<b>15.5</b>	<b>6.3</b>	<b>-14.4</b>	<b>-72.3</b>	<b>-9.7</b>
-Motorcycles	4.1	-0.5	1.6	15.1	9	-12.9	-70.3	-2.7
-Scooters	27	12.6	11.5	19.3	0.9	-16.5	-78.0	-27.5
-Mopeds	3.9	-2.6	23.3	-3.7	2.3	-27.5	-68.3	18.2
<b>TVS</b>								
<b>TVS Total sales</b>	<b>20.7</b>	<b>6.4</b>	<b>11.2</b>	<b>17.9</b>	<b>11.6</b>	<b>-17.8</b>	<b>-71.1</b>	<b>-3.7</b>
-TVS Motor Cycles	20.0	6.8	5.7	26.2	15.1	-12.6	-71.5	3.8
-TVS Scooters	47.5	15.8	7.1	30.4	14.6	-17.4	-72.2	-22.5
-TVS Mopeds	3.9	-2.6	23.3	-3.7	2.3	-27.5	-68.3	18.2

Source: CMIE

2W Industry (Domestic + Exports) reported sales volume drop of 14.4% in FY20 due to degrowth in domestic market (17.8 % drop in domestic market). However, exports witnessed growth of 7.2% in FY20. In FY20, the first half of FY saw a decline of around 16% in domestic market volume mainly due lower demand on weaker consumer sentiments and increased 2W prices due to mandatory safety regulations and increase in upfront insurance cost. Further, industry witnessed volume drop of 20% during second half owing to the slowdown in demand, transition of BSIV to BSVI vehicles where prices further went up on an average by 12% and nationwide lockdown at the end of FY due to COVID-19 pandemic. Q1FY21 witnessed drop in volumes due to the restricted sales due to nation-wide lockdown. However, sales volumes have improved from July 2020 onwards.

TVSM continued to grow better than industry in 2W till FY19 due to strong product portfolio both in motorcycle and scooter and increase in dealer network (around ~1,200 dealers and around 3,100+ sub-dealers as on Mar'20). However in FY20, TVSM reported overall 2W sales volume of 30.9 lakh, drop of 17.8% in as against 2W industry drop of 14.4% mainly on account of higher volume drop in moped segment (drop of 27.5% Y-o-Y) due to weaker rural sentiments.

### Three wheelers sales primarily focused on export markets

TVSM reported 3W sales volume of 1.74 lakh, growth of 11.17% for FY20 as against 3W industry which reported drop of 10.24%. TVSM generates majority of its sales volume from export markets. Major export markets include Nigeria, Ethiopia,

Guinea, Kenya, Congo, etc. During FY20, exports contributed to around 93% of 3W sales volume. During 5mFY21 (till Aug 2020) for overall 3W, TVSM reported total sales volume of 30,633 drop of 54.9% Y-o-Y against 3W industry drop of 68.4% Y-o-Y.

#### **Geographically diversified revenue stream with increase in share of exports in total revenue**

In the past four years, share of exports in TVSM's total income increased from 18.3% in FY17 to 27.7% in FY20. TVSM's top export destinations include countries such as Bangladesh, Nigeria, Sri Lanka, Guinea, Kenya, Nepal etc. where it provides a varied product portfolio consisting of motorcycles, scooters, mopeds and three wheelers. Trend in exports for past few years tabled below.

Period	FY17	FY18	FY19	FY20
Exports as % of total income	18.3	19.9	23.7	27.7
Share of exports in 2W sales volume (%)	12.8	14.6	16.5	22.0
Share of exports in 3W sales volume (%)	82.7	83.3	89.3	93.1

Over the years, TVSM had a significant market presence in South India. With continuous brand building and positioning of product categories in line with the local demand, TVSM has been able to expand its presence beyond South and currently has significant presence in all the regions. The effort taken over the years to improve pan India dealer network has resulted in TVSM having pan India presence across the categories with scope for improvement in West and North regions.

#### **Drop in domestic market share in FY20 after consistent improvement for past many years**

##### **TVSM's Domestic market share trend (% market share)**

	FY 14	FY 15	FY 16	FY 17	FY18	FY19	FY20
<b>Overall 2W (Motorcycle + Scooter + Moped)</b>	<b>11.8</b>	<b>13.1</b>	<b>13.4</b>	<b>14.2</b>	<b>14.2</b>	<b>14.8</b>	<b>13.8</b>
Motorcycle	5.5	6.2	6.7	7.0	7.3	7.5	6.7
Scooter	12.7	15.1	15.4	14.7	16.4	18.5	18.3

Source: CMIE

TVSM had been continuously improving domestic market share due to outperforming Industry growth till FY19 (market share 11.8% in FY14 to 14.8% in FY19), however the company witnessed the drop in market share in FY20 due to relatively high de-growth in moped segment as stated earlier. Overall domestic market share stood at 13.8% in FY20 as compared to 14.8% in FY19.

#### **Moderation in FY20 financial performance due to lower volumes; however PBILDT margin witnessed improvement in FY20**

Total operating income stood at Rs.16,452 crore decrease of 9.8 % YoY mainly due to drop in sales volume (18% drop in FY20) partially offset by improvement in realization( improved by 8% Y-o-Y) . The company reported PBILDT Margin of 8.36% for FY20 as compared to 7.91% for FY19 mainly due to improvement in the raw material cost (~74% in FY20 vis-a vis ~76% in FY19 to the total operating income) partially offset by lesser absorption of fixed cost on decrease in sales.

The company incurred one-time expense of Rs.32 crore in FY20 for Covid-19 related support and relief measures. The company reported PAT of Rs.592.3 crore (PY: Rs.670.1 crore) and GCA of Rs.1,009.5 crore ( Rs.1,083.5 crore) for FY20.

#### **Capital structure witnessed moderation in FY20 and Q1FY21**

Long term debt equity ratio increased to 0.28 times as on March 31, 2020 (PY: 0.22 times) whereas overall gearing increased to 0.59 times as on March 31, 2020 (PY: 0.48 times). Including the lease liability of Rs.110 crore, overall gearing stood at 0.62 times as on March 31, 2020.

The company had long term debt aggregating Rs.951.9 Cr as on March 31, 2020. Out of total long term debt, Rs. 652.5 Cr is term loan from banks and around Rs.299.4 Cr pertains to soft loans from SIPCOT and sales tax deferral loans with longer repayment term (till 2027). As these loans are almost interest-free with long repayment tenure, they provide comfort and flexibility to TVSM's capital structure.

During Q1FY21, TVSM has borrowed Rs.500 Cr by way of NCDs. Also utilization of working capital facilities has gone up during Q1FY21. The company borrowed/availed more debt to (1) support temporary increase in working capital with sharp drop in sales volume in Q1 and to ensure timely payment to all its suppliers and (2) To maintain good amount of liquidity. Due to this, the overall gearing increased to 0.89 times as on June 30, 2020. Adjusting for cash and liquid investments of Rs.814 Cr, net overall gearing stood at 0.65 times as on June 30, 2020.

#### **Key Rating Weaknesses**

##### **Significant exposure subsidiaries witnessed further increase in FY20; However, majority of exposure is in TVS Credit (NBFC arm) which is strategic in nature**

As on March 31, 2020, the overall investment of TVSM in subsidiaries and associates stood at Rs.2,885 crore (PY: Rs.2,301 crore). Overall investment stood at 83% of TVSM's networth as on March 31, 2020 as against 70% as on March 31, 2019. Out

of the total investments, around Rs.1,314 crore of investments (~57% of total investments) is made in TVS Credit services limited (TVS CS) which is strategic in nature. TVS Credit commenced operations as a non-deposit-taking NBFC in May 2010. It has scaled up its business and had an AUM of Rs 9,215 crore as on March 31, 2020. TVS CS currently finances two-wheelers (of TVS Motor), new tractors (TAFE and Eicher), used tractors, used cars, consumer durables and used commercial vehicle. It caters largely to rural customers who have little or no access to bank financing and has a high share of cash collection. As a captive financing arm, TVS CS remains critical to TVSM's plans to increase its market share. During FY20, TVS CS financed around 20% of the TVSM's sales by volume.

Other major investments include Sundaram Auto components limited (SACL) and PT TVS. TVSM had set up operations in Indonesia under PT TVS in 2007 with a facility to manufacture 300,000 vehicles. Over the years, TVSM has been investing in PT TVS in order to fund losses. During FY20, TVSM infused Rs.36 Cr in PT TVS and its investment related arm. PT TVS registered a sales volume of around 53,650 vehicles during FY20 as against 40,760 vehicles during FY19 mainly due to growth in exports. PT TVS also manufactures and sells 3W majorly in export market. Total 3W sales increased to 8,100 units in FY20 (PY: 2,700 units). During FY20, PT TVS reported net loss of Rs.43 Cr (PY: net loss of Rs.49 Cr) on total income of Rs.362 Cr (PY: Rs.239 Cr).

Sundaram Auto Components Limited (SACL; rated CARE A+/Stable; CARE A1+) was incorporated in 1992 as a wholly owned subsidiary of TVSM for the manufacture of wide range of automobile plastic components. During FY20, SACL reported PAT of Rs. 5 Cr on sale of Rs. 530 Cr.

TVSM has invested Rs.554 Cr in FY20 in subsidiaries and associates including recent acquisition of assets of Norton Motorcycles (UK) Ltd (Norton) through newly incorporated company Project 303 Bidco Ltd, a subsidiary of TVS Motor (Singapore) Pte. Ltd, Singapore in a cash transaction of Rs.153 crore (~GBP 16 million). Norton currently manufactures motorcycle in the range of 500-1200 cc. Currently TVSM is not present in this category and acquisition will help the company to improve its global portfolio. In near term company will export Norton products to European and other developed markets. TVS Motor (Singapore) Pte. Ltd is a wholly owned subsidiary of TVSM.

The ability of TVSM to rationalize its exposure to group entities in addition to stabilization of the Indonesian subsidiary's operations would be key to its prospects.

#### **Liquidity- Adequate**

Liquidity of TVSM remains adequate with cash and bank balance of Rs. 414.3 Cr as on March 31, 2020 and Rs.814.0 Cr as on June 30, 2020 and low debt repayment obligation of Rs. 55 Cr for FY21 as compared to GCA of Rs.1,009 Cr reported during FY20. Average working capital utilisation of ~63.7 % for the twelve month period ended June 2020. The current ratio has been marginally less than unity on account of the short working capital cycle, as the domestic sale is made on cash & carry basis while the company gets longer credit period from its suppliers. Working capital cycle remained comfortable at -9 day for FY20 (PY: -7 days).

#### **Analytical approach:**

For arriving at the ratings, CARE has considered TVSM's standalone financials as TVSM contributed to ~87% of the consolidated gross income for FY20. However, financial and operational performances of major subsidiaries and likely investment commitments to group companies have been factored in during the analysis.

#### **Applicable Criteria**

[Criteria on assigning Outlook and Creditwatch to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

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

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

[CARE's methodology for manufacturing companies](#)

[Consolidation and Factoring Linkages](#)

#### **About the Company**

TVS Motor Company Ltd (TVSM) is amongst the largest two-wheeler manufacturers in India. TVSM currently manufactures a wide range of two-wheelers and three-wheelers at its manufacturing facilities located at Hosur (Tamil Nadu), Mysore (Karnataka) and Nalagarh (Himachal Pradesh) with a total installed manufacturing capacity of 55.00 lakh two wheelers and 2.0 lakh three wheelers per annum as on March 31, 2020. The company has also set up a wholly owned subsidiary in Indonesia, PT. TVS Motor company Indonesia (PT TVS) for the manufacture of motorcycles, in 2007. TW industry can be broadly classified as Motorcycles (~65% of total TW sales) and scooters (~32% of TW sales) and mopeds (~4% of TW sales) for the domestic market. TVSM has presence in all the three categories and is only player in the moped segment. TVSM reported total income of Rs. 16,452 Cr in FY20, of which, exports accounted for 28% of total income.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	18,216	16,452
PBILDT	1,442	1,375
PAT	670	592
Overall gearing (times)	0.48	0.59
Interest coverage (times)	17.90	13.45

**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 instruments/facilities is given in Annexure-3

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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN NO	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2026	660.59	CARE AA+; Stable
Fund-based-LT/ST	-	-	-	-	250.00	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	350.00	CARE A1+
Non-fund-based-Short Term	-	-	-	-	50.00	CARE A1+
Fund-based - ST-PC/Bill Discounting	-	-	-	-	100.00	CARE A1+
Debentures-Non Convertible Debentures	INE494B08010	May 15, 2020	7.5%	May 15, 2023	500.00	CARE AA+; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	400.00	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 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	660.59	CARE AA+; Stable	-	1)CARE AA+; Stable (26-Dec-19)	1)CARE AA+; Stable (05-Oct-18)	1)CARE AA+; Stable (05-Jan-18)
2.	Fund-based-LT/ST	LT/ST	250.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (26-Dec-	1)CARE AA+; Stable / CARE A1+ (05-Oct-	1)CARE AA+; Stable / CARE A1+ (05-Jan-

						19)	18)	18)
3.	Non-fund-based - ST-BG/LC	ST	350.00	CARE A1+	-	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (05-Jan-18)
4.	Non-fund-based-Short Term	ST	50.00	CARE A1+	-	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (05-Jan-18)
5.	Commercial Paper-Commercial Paper (Standalone)	ST	400.00	CARE A1+	-	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (29-Jun-18)	1)CARE A1+ (05-Jan-18)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (11-May-20)	-	-	-
7.	Fund-based - ST-PC/Bill Discounting	ST	100.00	CARE A1+	-	-	-	-

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

Name of the Instrument	Detailed explanation										
<b>A. Financial covenants</b>											
<b>Covenants in relation to the undernoted parameters are to be stipulated for the term loan and are required to be tested annually on the basis of Audited Balance Sheet.</b>											
<table border="1"> <thead> <tr> <th>Parameters</th> <th>Benchmark for Annual testing of Financial Covenants</th> </tr> </thead> <tbody> <tr> <td>DSCR</td> <td>1.50</td> </tr> <tr> <td>Interest Coverage ratio</td> <td>2.60</td> </tr> <tr> <td>FACR</td> <td>1.00</td> </tr> <tr> <td>Debt/EBITDA</td> <td>3.60</td> </tr> </tbody> </table>	Parameters	Benchmark for Annual testing of Financial Covenants	DSCR	1.50	Interest Coverage ratio	2.60	FACR	1.00	Debt/EBITDA	3.60	-
Parameters	Benchmark for Annual testing of Financial Covenants										
DSCR	1.50										
Interest Coverage ratio	2.60										
FACR	1.00										
Debt/EBITDA	3.60										

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - ST-PC/Bill Discounting	Simple
5.	Fund-based-LT/ST	Simple
6.	Non-fund-based - ST-BG/LC	Simple
7.	Non-fund-based-Short Term	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](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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