

Tata Communications Payment Solutions Limited

February 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper Issue [^]	200.00 [^]	Provisional CARE A1+(CE) [Provisional A One Plus (Credit Enhancement)]	Revised from CARE A1+ (CE) [A One Plus (Credit Enhancement)]
Commercial Paper Issue [^]	50.00 [^]	Provisional CARE A1+(CE) [Provisional A One Plus (Credit Enhancement)]	Reaffirmed
Total Instruments	250.00 (Rupees two fifty crore only)		

Details of instruments/facilities in Annexure-1

[^] to be backed by credit enhancement in the form of letter of comfort proposed to be extended by TCL.

Unsupported Rating²	CARE A2+ (A Two 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 revision and reaffirmation in the ratings assigned to commercial paper programme of Tata Communications Payment Solutions Limited (TCP SL) factor in the expected credit enhancements in the form of Letter of Comfort proposed to be extended by TCL.

Detailed Rationale & Key Rating Drivers of the Tata Communications Limited (LOC provider)

The credit profile of Tata Communications Limited (TCL) reflect continuance of revenue growth and improved operating margin in Global Data Management Service (GDMS) business segment, dominant position in the Global Voice Segment (GVS) and the financial flexibility it enjoys being a part of the Tata group.

The ratings also factor in TCL's vast global presence in diversified geographical area, its large cable network which has helped company to service its clients proficiently and its strong financial flexibility which has helped TCL to reduce its cost of borrowing.

The rating strengths are, however, constrained by decline in revenues and profitability from GVS segment due to intense competition, exposure to regulatory risk, TCLs limitation to raise equity, continued dependence on a large quantum of debt for its capex program, weak capital structure and moderate debt coverage indicators.

Rating Sensitivities:

Negative Factor

- Further erosion of networth as well as increase in debt levels leading to deterioration in capital structure
- Any debt funded capex/investment leading to increase in Total Debt/PBILDT above 3.5 times on sustained basis

Detailed Rationale & Key Rating Drivers of Tata Communications Payment Solutions Limited (TCP SL)

The unsupported rating of CARE A2+ of Tata Communications Payment Solutions Limited derives strength from strong operational, managerial and financial support from experienced promoter i.e. TCL. The ratings also factor in the favourable market for ATM management services in India. The rating strengths are, however, tempered by subdued operational and financial performance of TCP SL in FY19 and H1FY20, weak financial risk profile and debt coverage indicators, highly regulated market for ATM and Payment Solution business, Technology obsolesce risk.

Detailed description of the key rating drivers

Key Rating Strength

Strong promoter group

TCL is a part of the over USD 100 billion Tata Group which comprises over 100 operating companies in several business sectors namely communications and information technology, engineering, materials, services, steel, auto, financial services,

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

² As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

energy, consumer products and chemicals. The group has operations in more than 100 countries across six continents, and its companies export products and services to 85 countries. TCL is one of the largest telecommunication service provider and strategically important companies within the Tata group being one the oldest business.

Dominant position of the company in the Global Voice Segment (GVS) albeit decline in income and profitability due to intense competition

TCL continue to be one of the largest players worldwide in the wholesale voice business. TCL is the world's one of the largest carrier of international wholesale voice traffic. TCL has over 300 direct routes with leading international voice telecommunication providers. During FY19, TCL handled approximately 30 billion minutes as against 35.4 billion minutes of international voice traffic globally in FY18, a decrease of 15.25% over the previous year. TCL's NLD (National Long Distance) traffic decreased from 3.9 billion minutes in FY18 to 2.6 billion minutes in FY19. Mobile Network Operators, however, continue to expand and roll out their domestic networks, shrinking the market for TCL's NLD services. Greater competition and regulatory initiatives have resulted in falling NLD tariffs over the years. The decline in GVS is largely attributed to the shrinkage in the addressable market for the Company as a result of higher usage of over-the-top (OTT) services and pricing pressures due to competition. During FY19, revenue from the GVS segment declined by around 27% to Rs.3,870 crore. However, PBILDT Margin improved to 8.7% in FY19 against 6.32% in FY18. The wholesale international voice business is mature and increasingly commoditized.

Continued focus on GDMS segment for better margin realization

During FY19, revenue share of GDMS segment increased to 76% (65% in FY18). This segment registered a revenue growth of around 10.4% in FY19 on y-o-y basis. TCL continues to focus on this segment (especially in the growth segment) as it is a high margin business and has taken up various branding and marketing initiatives which are expected to translate into revenue going forward. With the increase in revenue in the growth segment (cloud hosting, streaming, managed security services, etc), the losses at EBITDA level has come down.

Weak capital structure and moderate debt coverage indicators

The networth of TCL is impacted on account of past losses and write-off on account of investments in Tata Teleservices Limited (rated CARE A+; Stable/CARE A1+). Also, there is limitation for raising equity capital as substantial portion of equity is also held by Government of India. The total borrowings continued to be high at Rs.9,165.00 crore as on March 31, 2019 (Rs.8933.68 crore as at March 31, 2018). Though the debt levels of the company are high, the average cost of borrowings is low as majority of the debt is foreign currency debt raised by international subsidiaries. Further the company has natural hedge due to significant revenue and profit in dollars which helps in saving hedging cost. TCL has also undertaken the process of monetization of its non-core assets to deleverage its balance sheet. TCL had moderate debt coverage indicators with interest coverage of 6.69x in FY19 (6.95x in FY18) and total debt to PBILDT of 3.45x as on March 31, 2019 (5.85 as on March 31, 2018). Any large debt funded acquisitions or capex resulting in further weakening of financial risk profile will continue to remain a key monitorable.

Losses in Payment Solutions segment

Payment Solutions (PS) includes end-to-end ATM deployment end-to-end POS enablement hosted core banking end to end financial inclusion and card issuance and related managed services and switching services to banking sector carried out by TCL's wholly owned subsidiary Tata Communications Payment Solutions Limited (TCPSP, rated CARE AA (CE); Stable/CARE A1+(CE)). TCL continue to report losses in the payment solution segment. TCPSP is operating total 12772 ATM as on March 31, 2019 (PY: 16167 ATM). It has closed 3395 ATM during FY19 to rationalize ATM portfolio and focus on improving profitability. The average transaction per day per ATM has gone up from 70 in FY18 to 90 in FY19. During H1FY20, TCPSP has further closed about 735 unprofitable ATM's (mainly Brown Label ATM's).

Regulatory risk

The telecommunication sector in India is surrounded by regulatory uncertainties and TCL remains susceptible to adverse regulatory changes. Recent, Supreme Court's ruling dated October 24, 2019 that the telecom players have to include non-core revenues in Adjusted Gross Revenue (AGR) to calculate the spectrum charges. TCL has received demand from Department of Telecommunications (DoT) for Rs. 6,633.43 crore which is to be paid by January 24, 2020 as per the Hon'ble Supreme Court order dated October 24, 2019. The ability of TCL to mitigate these risks is a key rating factor.

Strong Liquidity Profile

TCL has strong liquidity profile with unencumbered cash and cash equivalents of around Rs. 1023 crore as on September 30, 2019 as against Rs. 1,448.06 crore as on March 31, 2019. Also, the working capital utilizations are low thereby providing cushion to some extent to meet any contingencies. Furthermore, by virtue of being part of the Tata Group, the company enjoys significant level of financial flexibility.

Analytical approach:

Unsupported Ratings: CARE has adopted a standalone approach. Parent notching factors are also considered as the parent (TCL) holds 100% shareholding in TCPSL. The operational and financial linkages with TCL, which are integral to the operations of TCPSL, have been considered.

Credit Enhanced ratings (for LOC): The provisional ratings are based on the expected credit enhancement in the form of letter of Comfort proposed to be extended by TCL in favor of the lenders/investors of TCPSL. The credit profile of TCL has been assessed on consolidated basis on account of operational and financial linkages among entities. The list of entities whose financials have been combined with TCL are mentioned in Annexure 4.

Applicable Criteria

[Criteria on assigning rating outlook and credit watch](#)

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

[Criteria for Short Term Instruments](#)

[Criteria for Credit enhanced debt](#)

[CARE's Policy on Assignment of Provisional Ratings](#)

[Rating Methodology – Infrastructure Sector Ratings](#)

[Rating Methodology – Services Sector Companies](#)

[Rating methodology- Consolidation and Factoring Linkages in ratings](#)

[Financial ratios - Non-Financial sector](#)

About the Company – TCPSL

TCPSL, erstwhile Tata Communications Banking Infra Solutions Ltd. is a wholly owned subsidiary of Tata Communications Ltd. (TCL, CARE AA+/A1+). TCPSL is a banking and financial services organization offering a one stop 'plug-and-play' infrastructure management solution on a pay-per-use model to its clients. The company provides payment solutions such as managed ATM (Automated Teller Machine) services, managed hosted core banking solutions, point of sale (POS) solutions, card issuance & management and financial inclusion solutions. These services enable banks to focus on their core business, establish core banking processes, customer acquisition and retention channels with minimum resource allocations.

Brief Financials (Rs. crore)*	FY18 (Audited)	FY19 (Audited)
Total Operating Income	383.06	357.11
PBILDT	-20.01	5.66
PAT	-184.99	-125.22
Overall Gearing	1.14	1.64
Interest Coverage	-ve	0.20

-ve: Negative

*The financials are adjusted as per CARE Standards

About Tata Communications Payment Solutions Limited (LOC provider)

Tata Communications Limited (TCL) was incorporated on March 19, 1986 as Videsh Sanchar Nigam Limited (VSNL), an entity wholly owned by the Government of India (GoI). GoI, vide its letter dated 27 March 1986, transferred all assets and liabilities of the Overseas Communications Service (OCS, part of the Department of Telecommunications, Ministry of Communications) to VSNL with effect from April 01, 1986. During 2002, Tata Group acquired 50% stake in the company and in the year 2008, the company changed its name from VSNL to TCL. As at December 31, 2019, the Tata Group held 48.86% stake and GoI holds 26.12% stake. National Company Law Tribunal (NCLT) and Central Government through Ministry of Corporate Affairs (MCA) have approved the long pending demerger of surplus land on July 12, 2018 and August 05, 2019 respectively and recorded September 18, 2019 as record date of the demerger scheme.

During 9MFY20, the company has reported operating Income of Rs. 12702.45 crore, PBILDT of Rs.2452.46 crore and PAT of Rs. 190.16 crore as against operating income of Rs. 12302.23 crore, PBILDT of Rs.2080.38 crore and loss of Rs. 118.02 crore in 9MFY19.

Following table shows the brief financials of TCL (consolidated):

Brief Financials (Rs. crore)*	FY18 (Audited)	FY19 (Audited)
Total Operating Income	16,817	16,435
PBILDT	2,393	2,655
PAT	-326	-80
Overall Gearing	26.73	NM
Interest Coverage	6.95	6.69

NM: Not meaningful

*The financials are adjusted as per CARE Standards

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7 days to 364 days	100.00	Provisional CARE A1+ (CE)
Commercial Paper	-	-	7 days to 364 days	100.00	Provisional CARE A1+ (CE)
Commercial Paper	-	-	7 days to 364 days	50.00	Provisional CARE A1+ (CE)
Un Supported Rating-Un Supported Rating (Short Term)	-	-	-	0.00	CARE A2+

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.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	1)Withdrawn (05-Feb-18) 2)CARE AA+ (SO); Stable (08-Jan-18)	1)CARE AA+ (SO) (26-Dec-16) 2)CARE AA+ (SO) (01-Nov-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	1)Withdrawn (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
3.	Fund-based - ST-Bank Overdraft	ST	104.00	CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	50.00	CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)

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
5.	Fund-based - ST-Bank Overdraft	ST	210.00	CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18) 2)CARE A1+ (SO); Stable (21-Aug-18)	1)CARE A1+ (SO) (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
6.	Fund-based - LT-Cash Credit	LT	300.00	CARE AA (CE); Stable	-	1)CARE AA (SO); Stable (20-Dec-18)	1)CARE AA (SO); Stable (05-Feb-18) 2)CARE AA (SO); Stable (08-Jan-18)	1)CARE AA (SO) (26-Dec-16) 2)CARE AA (SO) (01-Nov-16)
7.	Commercial Paper	ST	100.00	Provisional CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (08-Jan-18) 2)CARE A1+ (SO) (18-Oct-17) 3)Provisional CARE A1+ (SO) (27-Sep-17)	1)Provisional CARE A1+ (SO) (26-Dec-16)
8.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	100.00	Provisional CARE AA (CE); Stable / CARE A1+ (CE)	-	1)Provisional CARE AA (SO); Stable / CARE A1+ (SO) (20-Dec-18)	1)Provisional CARE AA (SO); Stable / CARE A1+ (SO) (05-Feb-18) 2)Provisional CARE AA (SO); Stable / CARE A1+ (SO) (08-Jan-18)	1)Provisional CARE AA (SO) / CARE A1+ (SO) (26-Dec-16)
9.	Commercial Paper	ST	100.00	Provisional CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (08-Jan-18) 2)CARE A1+ (SO) (18-Oct-17) 3)CARE A1+ (SO) (27-Sep-17)	-
10.	Commercial Paper	ST	50.00	Provisional CARE A1+ (CE)	-	1)Provisional CARE A1+ (SO) (20-Dec-18)	1)Provisional CARE A1+ (SO) (08-Jan-18) 2)Provisional CARE A1+ (SO) (18-Oct-17)	-
11.	Fund-based/Non-fund-based-Long Term	LT	100.00	CARE AA (CE); Stable	-	1)CARE AA (SO); Stable (20-Dec-18) 2)CARE AA (SO); Stable	-	-

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
						(21-Aug-18)		
12.	Un Supported Rating- Un Supported Rating (Short Term)	ST	0.00	CARE A2+	-	-	-	-

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

Name of the Instrument	Detailed explanation
A. Non-financial covenants	
i Promoter holding to be maintained at minimum 51%	TCL i.e. directly or indirectly shall maintain a minimum shareholding of 51% in the TCPSL
ii change in management control	
iii inclusion of borrower and/or any of the director in Reserve Bank of India's Willful defaulters list	
iv appointment of Nominee Director on the board of the company	If the borrower defaults in repayment and same is not cured within 30 days, the bank will have right to appoint nominee directors of the borrower to look after its interest

Annexure- 4 List of subsidiaries, associates and joint ventures of TCL getting consolidated (list as on March 31, 2019)

Sr No.	Name of the company	% holding by TCL
1	TATA COMMUNICATIONS (AUSTRALIA) PTY LIMITED	100%
2	TATA COMMUNICATIONS (AMERICA) INC.	100%
3	TCPOP COMMUNICATION GMBH	100%
4	TATA COMMUNICATIONS (BELGIUM) SPRL	100%
5	TATA COMMUNICATIONS (BERMUDA) LIMITED	100%
6	TATA COMMUNICATIONS SERVICES (BERMUDA) LIMITED	100%
7	TATA COMMUNICATIONS (BEIJING) TECHNOLOGY LIMITED	100%
8	TATA COMMUNICATIONS (CANADA) LTD.	100%
9	TATA COMMUNICATIONS (FRANCE) SAS	100%
10	TATA COMMUNICATIONS DEUTSCHLAND GMBH	100%
11	TATA COMMUNICATIONS (GUAM) L.L.C.	100%
12	TATA COMMUNICATIONS (HONG KONG) LIMITED	100%
13	TATA COMMUNICATIONS (HUNGARY) LLC	100%
14	TATA COMMUNICATIONS (IRELAND) DAC	100%
15	TATA COMMUNICATIONS (ITALY) S.R.L	100%
16	TATA COMMUNICATIONS (JAPAN) K.K.	100%
17	ITXC IP HOLDINGS S.A.R.L.	100%
18	TATA COMMUNICATIONS (MALAYSIA) SDN. BHD.	100%
19	TATA COMMUNICATIONS (NETHERLANDS) B.V.	100%
20	TATA COMMUNICATIONS (NEW ZEALAND) LIMITED	100%
21	TATA COMMUNICATIONS (NORDIC) AS	100%
22	TATA COMMUNICATIONS (POLAND) SP. Z O. O.	100%
23	TATA COMMUNICATIONS (PORTUGAL) INSTALACAO E MANUTENCAO DE REDES, LOA	100%
24	TATA COMMUNICATIONS (PORTUGAL), UNIPessoal LDA	100%
25	TATA COMMUNICATIONS (RUSSIA) LLC.	90.90%
26	TATA COMMUNICATIONS INTERNATIONAL PTE. LTD.	100%
27	VSNL SNO SPV PTE. LTD.	100%
28	TATA COMMUNICATIONS SERVICES (INTERNATIONAL) PTE. LTD.	100%

Sr No.	Name of the company	% holding by TCL
29	TATA COMMUNICATIONS (SPAIN), S.L.	100%
30	TATA COMMUNICATIONS (SWEDEN) AB	100%
31	TATA COMMUNICATIONS (SWITZERLAND) GMBH	100%
32	TATA COMMUNICATIONS (TAIWAN) LTD	100%
33	TATA COMMUNICATIONS (THAILAND) LIMITED	100%
34	TATA COMMUNICATIONS (MIDDLE EAST) FZ-LLC	100%
35	TATA COMMUNICATIONS (UK) LIMITED	100%
36	TATA COMMUNICATIONS TRANSFORMATION SERVICES LIMITED	100%
37	TATA COMMUNICATIONS PAYMENT SOLUTIONS LIMITED	100%
38	TATA COMMUNICATIONS COLLABORATION SERVICES PRIVATE LIMITED	100%
39	SEPCO COMMUNICATIONS (PTY) LIMITED	73.17%
40	TATA COMMUNICATIONS LANKA LIMITED	90.00%
41	TATA COMMUNICATIONS (SOUTH KOREA) LIMITED	100%
42	TATA COMMUNICATIONS TRANSFORMATION SERVICES PTE LIMITED	100%
43	Tata Communications Transformation Services (Hungary) Kft.	100%
44	Tata Communications (Brazil) Participacoes Limitada	100%
45	Nexus Connexion (SA) Pty Limited	100%
46	Tata Communications Transformation Services (US) Inc	100%
47	Tata Communications Transformation Services South Africa (Pty) Ltd	100%
48	Tata Communications Cornunlcacoes E Multimfdia (Brazil) Limitada	100%
49	Tata Communications MOVE B.V.(Earlier known as Teleena Holding B. V.)	100%
50	Tata Communications MOVE Nederland B.V, (Earlier known as Teleena Nederland B.V.)	100%
51	Tata Communications MOVE UK Limited (Earlier known as Teleena UK Limited)	100%
52	Tata Communications MOVE Singapore Pte. Ltd. (Earlier known as Teleena Singapore Pte. Ltd.)	100%
53	MuCoso B.V.	100%
54	NetFoundry Inc.	100%
55	STT GLOBAL DATA CENTERS PRIVATE LTD	26%
56	UNITED TELECOM LIMITED	26.66%
57	SMART ICT SERVICES PRIVATE LIMITED	24%
58	STT Tai Seng Pte Limited	26%

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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