

Dhani Loans and Services Limited
April 07, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating³ | Rating Action |
|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Long & Short term bank facilities | 10,000.00 (Rs. Ten Thousand Crore only) | CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable / A One Plus] | Revised from CARE AA-; Stable / CARE A1+ [Double A Minus; Outlook: Stable / A One Plus] |
| Non-convertible debentures | 2,400.00* (Rs. Two Thousand Four Hundred Crore only) (reduced from 2,900) | CARE A+; Stable [Single A Plus; Outlook: Stable] | Revised from CARE AA-; Stable [Double A Minus; Outlook: Stable] |
| Public Issuance of Secured Redeemable Non-Convertible Debentures | 2,928.55* (Rs. Two Thousand Nine Hundred Twenty-Eight Crore Fifty-Five Lakhs Only) (reduced from 3,000) | CARE A+; Stable [Single A Plus; Outlook: Stable] | Revised from CARE AA-; Stable [Double A Minus; Outlook: Stable] |
| Commercial Paper | 2,000.00 (Rs. Two Thousand Crore only) | CARE A1+ [A One Plus] | Reaffirmed |

Details of instruments/facilities in Annexure-1
Reduced on account of redemption

Detailed Rationale & Key Rating Drivers

CARE has revised ratings assigned to debt instruments and bank facilities of Dhani Loans and Services Ltd (DLSL) (formerly Indiabulls Consumer Finance Limited) to CARE A+ (Single A Plus) with Stable outlook. The revision in rating factors in weakening business model with higher credit costs than what was envisaged earlier, sharp fall in loan book size, significant fall in profitability, and reduction in diversification of its resource profile. Although, DLSL has raised funds largely via term loan facilities, securitization and through direct assignments of its loan portfolio, the overall quantum of the borrowings reduced due to limited borrowing avenues. Credit profile of the company also remains impacted by the limited track record, and moderate seasoning of the loan book as well as a sizeable portion of the loan portfolio being unsecured in nature.

The rating continues to factor in experienced management team, low gearing levels, healthy capitalization and sound liquidity buffers. The ability to raise funds from diversified sources, improvement in asset quality, healthy growth in business, and improvement in profitability, remain key rating monitorable.

The company plans to completely shift to unsecured loans going forward. Overall disbursements reduced sharply for FY20 and for 9MFY21 and there has been no disbursement for secured LAP business during FY21.

Rating Sensitivities

Factors that could lead to positive rating action/upgrade:

- Substantial improvement in the asset quality, with seasoning of the loan book
- Sustained growth in business with higher profitability
- Improvement in resource raising ability from diversified sources on a steady state basis

Factors that could lead to negative rating action/upgrade:

- Deterioration in asset quality with credit costs and 90 days overdue totaling more than 6%
- Deterioration in financial flexibility with constraints in raising resources
- Cost of borrowings remaining significantly higher than the current levels on a sustained basis
- Significant impact on profitability on account of scale down of business / change in business model and/or due to change in operating environment.
- Deterioration in the credit profile of the parent group

Detailed description of the key rating drivers**Key Rating Strengths****Experienced management team**

The management team of DLSL has extensive experience in financial services industry and is headed by Mr. Pinank Shah, who is the whole-time director and Chief Executive Officer (CEO). Mr. Shah has been associated with the Indiabulls group

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

for over 8 years. He is ably supported by the vastly experienced second line of management many of whom have had experience within the Indiabulls group or with leading private sector banks and NBFCs. Mr. Shah headed treasury in Indiabulls Housing Finance Limited (IBHFL) before he joined DLSL as CEO. He has also worked with mortgage lender HDFC Limited for almost 10 years. He is also one of the Executive Directors of the parent company Dhani Services Limited (DSL). Further, Mr. Gagan Banga (Vice Chairman and Managing Director of IBHFL) and Mr. Ajit Kumar Mittal (Director, IBHFL) have been on the Board of DLSL. The company has also appointed Mr. Narendra Jadhav as the new Independent Director, who is currently a Member of Rajya Sabha.

Strong net-worth base and healthy capitalization levels

DLSL continues to be strongly capitalized with tangible net worth of Rs.4,136 crore as on March 31, 2020 as against Rs.4,280 crore as on March 31, 2019. The company reported healthy Capital Adequacy Ratio (CAR) of 58.92% (Tier-I CAR of 52.66%) as on March 31, 2020 as compared to CAR of 37.70% at end-FY19 (Tier I CAR: 37.12%). Overall gearing ratio continued to be low at 1.21 times as on March 31, 2020, from 1.86 times as on March 31, 2019. The Capital Adequacy ratio stood at 51.23% with Tier-I CAR of 49.10% and gearing at 0.87 times as on December 31, 2020.

DLSL's parent – Dhani Services Limited (DSL) raised Rs.588 crore (\$80 million) through a preferential share sale to investors led by American fintech investor Ribbit Capital. The company issued 33.6 million shares, representing about 5.5% shareholding, to six investors including units of Ribbit Capital and NWI Management at Rs.175 per share.

Although DLSL remains well capitalized, in case the need to raise more capital arises in future, the parent DSL would remain open to evaluating the scenario and infusing capital.

Strong Support from Parent

DLSL is a 100% subsidiary of Dhani Services Limited (DSL). DLSL contributes to 82.44% of the total assets of DSL at end-FY20 and receives strong support from its parent as well as managerial and operational linkages and financial flexibility in form of regular capital support.

In the recent period, the group has seen challenges in raising funds due to overall risk aversion in the market towards the group resulting in moderation in financial flexibility of the group. In case of continued risk aversion among market participants, it would be a challenge to raise funds and in turn that may impact the profitability of the company. The continued support from the promoters continue to remain one of the key monitorable.

Linkages with Indiabulls Group

DLSL is a 100% subsidiary of Dhani Services Limited (DSL). DSL has over the last few years built a technology platform through its digital application 'Dhani'. The company opted for name change to align "Dhani" with the name of the company, as its customers resonate with its products and features on 'Dhani' app.

The Linkages with Indiabulls group have reduced to some extent due to change in brand name from Indiabulls to Dhani. Also, the Promoter, Chairman & CEO of DSL, Mr. Sameer Gehlaut has stepped down as chairman of IBHFL and would continue as a non-executive director in IBHFL. However, Mr. Gagan Banga and Mr. Ajit Kumar Mittal continue to remain board members for DLSL.

Key Rating Weaknesses

Weakening Business model with higher credit cost than estimated earlier

Asset quality worsened in FY20 and reported Gross NPA ratio and Net NPA ratios were at 0.95% and 0.36% as on March 31, 2020, respectively as against 0.75% and 0.23% as on March 31, 2019, respectively on AUM basis. On loan book, the company reported Gross NPA ratio and Net NPA ratios at 1.93% and 0.84% as on March 31, 2020, respectively as against 0.79% and 0.25% as on March 31, 2019, respectively.

Credit costs have increased substantially after covid-19 pandemic and the lockdown in the economy. The Gross NPA on loan book basis after Supreme Court Dispensation was 2.27% as on December 31, 2020. However, without considering the Supreme Court Dispensation the GNPA would have been 9.8% on proforma basis. The company has made provisions on this higher number and not on the reported GNPA.

Also, the operating expenses of the company have remained relatively high, despite a sharp fall in loan book, as it has a strong collection force of around 10000 personnel, which are not outsourced, looking at a large proportion of unsecured loans. Due to relatively higher operating expenses and higher credit costs, the profitability of the company has shrunk substantially.

Reduction in profitability

DLSL reported a sharp decline in profitability in FY20 as it reported a PAT of Rs.54.25 crore on total income of Rs.2,517 crore in FY20 as compared to PAT of Rs.400 crore on total income of Rs.1,650 crore in FY19. While the company's net interest income rose by 12.4% y-o-y to Rs.1,020 crore, it was partly offset by the sharp increase in operating expenditure which almost doubled y-o-y to Rs.897 crore in FY20. Moreover, the company had higher provisioning and write-off costs to the tune of Rs.816 crore in FY20 compared to Rs.103 crore in FY19. DLSL made COVID-19 related provisioning (over and

above standard ECL provisioning) worth Rs.390 crore at end-FY20. On a Consolidated basis, DLSL reported a Loss of around Rs.38 crore for FY20 on account of losses in subsidiaries.

As on December 31, 2020, DLSL reported PAT of Rs.54 crore on income of Rs.919 crore (on standalone basis) as compared to Rs.324 crore on income of Rs.2,024 crore as on December 31, 2019. The decline in the income for 9MFY21 is due to sharp fall in on balance sheet loan book from Rs.10,633 crore as on end of FY19 to Rs.5,324 crore as on December 31, 2020. However, the company showed some improvement in profitability at consolidated level as on December 31, 2020 with PAT of Rs.24 crore.

The Net Interest Margin and other income declined from 9.35% and 6.95% respectively as on March 31, 2020 to 5.44% and 3.18% respectively as on December 31, 2020 but the credit cost improved from 7.48% to 1.31% thereby improving the ROTA from 0.50% to 0.82% as on December 31, 2020. However, the ROTA remained significantly lower than 4.49% as on March 31, 2019.

The ability of the company to increase its book size with significant rise in profitability remain one of the key rating monitorable.

High proportion of unsecured loan book

After growing by 180% y-o-y in FY19, DLSL registered a 14.27% y-o-y decline in AUM to Rs.9,626 crore as on March 31, 2020 and constituted personal loans (62%), unsecured SME loans (15%) and secured SME loans (23%). While the on-book loans and advances portfolio showed a sharp drop to Rs.4,709 crore (P.Y.: Rs.10,688 crore) at end-FY20, the off-book lending portfolio witnessed a substantial rise to Rs.4,917 crore (P.Y.: Rs.595). The company consciously chose to run-off the on-book loan assets as it opted for securitization and direct assignments to raise funds during FY20.

Further, DLSL has developed an application for their personal loan portfolio called 'Dhani' which enables loan application, risk analysis, credit approval, underwriting and disbursement process to be carried out electronically through the application. The company plans to completely get out of secured LAP business. There has been no disbursement for secured LAP business during FY21 and the current loan book would run off in the next two years or so. The company wants to convert to completely unsecured lending business going forward.

Limited track record of operations with moderately seasoned loan portfolio and majority loans being unsecured

The portfolio mix as on March 31, 2020 constituted 77% of unsecured lending in form of personal loan and unsecured business loans and company's management targets to reduce its secured loans portfolio in the near future.

The company plans to completely shift to unsecured loans going forward. Overall disbursements reduced sharply for FY20 and for 9MFY21 and there has been no disbursement for secured LAP business during FY21

Moderation in funding profile

DLSL has a past record of raising funds through NCD, bank facilities, commercial papers and securitization/assignment. However, post September, 2018, due to overall risk aversion by lenders, NBFCs saw certain challenges in raising resources. With overall tightening in liquidity in the markets, the disbursement levels of the company have seen decline and DLSL's total borrowings declined from Rs.7,563 crore at end-FY19, which constituted largely of bank loans (72%) and NCD (10%) Commercial Paper (CP; 13%) and Securitisation (5%) to Rs.4,753 crore as on March 31, 2020 constituting bank loans (64%), securitisation lines (19%) and NCD (17%) while CP stood at nil. The company has incrementally relied on securitisation for its funding in the current financial year.

As on December 31, 2020, the borrowings stood at Rs.3,458 crore with 22% of borrowings in the form of NCD and remaining 78% in other debt securities and securitisation. Lease liabilities stood at Rs.144 crore while CP stood at Nil. While the company has been able to raise equity funds, it has faced challenges in raising debt funds. CARE would continue to monitor closely the ability of the company to raise debt funds and it would remain a key monitorable.

Liquidity profile: Strong

As on December 31, 2020, DLSL's ALM showed no negative mismatch in all the time bucket. DLSL maintained cash and liquid investments of ~Rs.1,270 crore in the form of cash, Mutual Fund, NCDs/CDs and Fixed Deposits investments as on February 28, 2021 as against Rs.1,427 crore of debt repayment in the next 12 months as on December 31, 2020. The company maintains sufficient amount of cash and cash equivalents up to around 11-12 months of debt re-payments (without considering cash inflows from loan assets).

Analytical approach: CARE has assessed the standalone financial profile of DLSL

Applicable Criteria

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

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

[Criteria for Non-Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

[Factor Linkages in Ratings](#)

[Rating of Short-term instruments](#)
About the Company

Dhani Loans and Services Limited (DLSL) (erstwhile Indiabulls Consumer Finance Limited) is a wholly owned subsidiary of Dhani Services Limited (erstwhile Indiabulls Ventures Limited (IVL)). The company was incorporated on October 27, 1994. The company is registered as a non-deposit taking systemically important non-banking finance company (NBFC-ND-SI) and is into lending business with primary focus on personal loans, and unsecured SME loans.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income | 1,650 | 2517 |
| PAT | 400 | 54 |
| Interest coverage (times) | 1.95 | 1.07 |
| Total Assets | 12,369 | 9,442 |
| Net NPA (%) (AUM basis) | 0.25 | 0.36 |
| ROTA (%) | 4.49 | 0.50 |

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

Annexure-1: Details of instruments/facilities as on February 28, 2021

| Name of the Instrument | ISIN | Date of Issue | Date of Maturity | Issue Size (Rs.cr.) | Coupon | Rating Assigned with Rating Outlook |
|-----------------------------------------------------------|--------------|---------------|------------------|---------------------|--------|-------------------------------------|
| Debentures - Public issue of Non - Convertible Debentures | INE614X07027 | 08-Mar-19 | 08-May-21 | 377.47 | 10.75% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07035 | 08-Mar-19 | 08-May-21 | 24.66 | 0.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07043 | 08-Mar-19 | 08-May-22 | 32.5 | 10.40% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07050 | 08-Mar-19 | 08-May-22 | 75.54 | 10.90% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07068 | 08-Mar-19 | 08-May-22 | 23.58 | 0.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07076 | 08-Mar-19 | 08-Mar-24 | 47.01 | 10.50% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07084 | 08-Mar-19 | 08-Mar-24 | 26.07 | 11.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07092 | 08-Mar-19 | 08-Mar-24 | 19.38 | 0.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07134 | 27-Jun-19 | 27-Jun-21 | 7.18 | 10.27% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07142 | 27-Jun-19 | 27-Jun-21 | 3.48 | 0.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07159 | 27-Jun-19 | 27-Jun-22 | 12.37 | 9.95% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07167 | 27-Jun-19 | 27-Jun-22 | 12.21 | 10.41% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07175 | 27-Jun-19 | 27-Jun-22 | 4.28 | 0.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07183 | 27-Jun-19 | 27-Jun-24 | 15.64 | 10.13% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07191 | 27-Jun-19 | 27-Jun-24 | 12.8 | 10.61% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07209 | 27-Jun-19 | 27-Jun-24 | 4.38 | 0.00% | CARE A+; Stable |

| Name of the Instrument | ISIN | Date of Issue | Date of Maturity | Issue Size (Rs.cr.) | Coupon | Rating Assigned with Rating Outlook |
|-------------------------------------------------------------------|--------------|---------------|------------------|---------------------|--------|-------------------------------------|
| Convertible Debentures | | | | | | |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07225 | 06-Sep-19 | 06-Sep-21 | 1.21 | 10.12% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07233 | 06-Sep-19 | 06-Sep-21 | 0.48 | 0.00% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07241 | 06-Sep-19 | 06-Sep-22 | 2.97 | 9.81% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07258 | 06-Sep-19 | 06-Sep-22 | 2.25 | 10.27% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07274 | 06-Sep-19 | 06-Sep-24 | 3.80 | 10.04% | CARE A+; Stable |
| Debentures - Public issue of Non - Convertible Debentures | INE614X07282 | 06-Sep-19 | 06-Sep-24 | 11.81 | 10.52% | CARE A+; Stable |
| Proposed Debentures - Public issue of Non -Convertible Debentures | - | - | - | 2,207.48 | - | CARE A+; Stable |
| Debentures - Non-Convertible Debentures | INE614X07266 | 06-Sep-19 | 06-Sep-22 | 0.85 | 0.00% | CARE A+; Stable |
| Debentures - Non-Convertible Debentures | INE614X07290 | 06-Sep-19 | 06-Sep-24 | 1.04 | 0.00% | CARE A+; Stable |
| Debentures - Non-Convertible Debentures | INE614X07316 | 17-Nov-20 | 17-May-22 | 25.00 | 9.50% | CARE A+; Stable |
| Proposed Debentures - Non-Convertible Debentures | - | - | - | 2,373.11 | - | CARE A+; Stable |
| Bank Facilities-Fund Based - LT/ ST-Term loan | - | - | - | 10,000 | - | CARE A+; Stable/ CARE A1+ |
| Commercial Paper | - | - | - | 2,000 | - | 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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT/ ST- Bank facilities | LT/ST | 10,000 | CARE A+; Stable / CARE A1+ | | 1) CARE AA-; Stable / CARE A1+ (18-Sep-20) 2) CARE AA-; Stable / CARE A1+ (01-Apr-20) | - | 1) CARE AA; Stable / CARE A1+ (27-Mar-19) 2) CARE AA; Stable/CARE A1+ (04-Jan-19) |
| 2 | Commercial Paper | ST | 2,000 | CARE A1+ | | 1) CARE A1+ (18-Sep-20) 2) CARE A1+ (01-Apr-20) | - | 1) CARE A1+ (27-Mar-19) 2) CARE A1+ (04-Jan-19) 3) CARE A1+ (08-May-18) |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|---------------------------------------------------------------|-----------------|--------------------------------|-----------------|-------------------------------------------|--------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 3 | Debentures- Non-convertible debentures | LT | 2400 (reduced from 2,900) | CARE A+; Stable | | 1) CARE AA-; Stable (18-Sep-20) 2) CARE AA-; Stable (01-Apr-20) | - | 1) CARE AA; Stable (27-Mar-19) 2) CARE AA; Stable (04-Jan-19) 3) CARE AA; Stable (25-Sep-18) |
| 4 | Public issue of secured redeemable non-convertible debentures | LT | 2928.55 (reduced from 3000) | CARE A+; Stable | | 1) CARE AA-; Stable (18-Sep-20) 2) CARE AA-; Stable (01-Apr-20) | - | 1) CARE AA; Stable (27-Mar-19) 2) CARE AA; Stable (04-Jan-19) 3) CARE AA; Stable (05-Sep-18) |

Annexure 3: Complexity level of various instruments rated for this company

| Sr. No | Name of Instrument | Complexity Level |
|--------|----------------------------------------|------------------|
| 1 | Fund Based – LT/ST – Term Loan | Simple |
| 2 | Commercial Paper | Simple |
| 3 | Debentures- Non-convertible debentures | 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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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