

Press Release

Edelweiss Housing Finance Limited

February 04, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	500.00	ACUITE AA Negative Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	500.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long term rating of 'ACUITE AA' (read as ACUITE double A) on the Rs.500.00 Cr proposed Secured Retail Non-Convertible Debentures of Edelweiss Housing Finance Limited (EHFL). The outlook is 'Negative'.

The rating reaffirmation reflects Edelweiss Group's established track record in financial services with diversified business profile, adequate capitalization levels and comfortable liquidity profile. The rating considers the significant portion of revenue being generated through the fees and advisory services. This stream of income is steadily growing and provides stable cashflows to the overall earnings profile of the Group. The rating takes cognizance of the Group's strategic intent on downsizing its wholesale book and building its retail mortgage and SME book with focus on the co-origination model which will keep it asset light and provide granularity to loan portfolio. The rating also takes into consideration the group's demonstrated resource raising ability as depicted by monetization of their 51% stake in wealth management business for Rs.2,366 Cr., Rs.1,040 Cr. from CDPQ (Canadian Pension Fund) in the ECL Finance Limited via compulsorily convertible debentures, In the past, the Group has also raised Rs.177 Cr. from KORA Management and Rs.117 Cr. from Sanaka Capital in Edelweiss Global Investment Advisors (EGIA) via compulsory convertible preference shares. PAG's stake in wealth management business increased to 61% post acquisition of stake of KORA Management and Sanaka Capital with balance 39% held by Edelweiss Group. Recently, Edelweiss Group raised its stake to 44.16% with PAG's stake now at 55.84%. Acuité takes note of announcement by the Group in July 2021 of stake sale of 70%, subject to regulatory approvals, in its insurance broking business to existing investor, Gallagher Insurance for consideration of ~Rs.308 Cr. Pursuant to this deal, Gallagher Insurance will have complete ownership of this business.

The rating is partially offset by moderate profitability with profit after tax (excluding minority interest) of Rs.254 Cr. during FY2021 driven by one time gain of about Rs.1,400 Cr. on sale of majority stake in wealth management business to PAG (loss of Rs.2,044 Cr. (excluding minority interest) in FY2020) coupled with declining loan book (Rs.12,328 Cr. (excluding Loan Against Securities portfolio forming part of wealth management business) as on September 30,2021 as against Rs.14,059 Cr. (excluding Loan Against Securities portfolio forming part of wealth management business) as on March 31,2021) and subdued asset quality (GNPA of 7.73% as on March 31,2021 as against 5.3% as of March 31,2020). The GNPA stood at 4.5% as on September 30,2021. Furthermore, high concentration in wholesale Credit(Top 20 borrowers accounting for about 29% of overall loan book as on September 30,2021, particularly exposure

to real estate developers may build up further pressure on asset quality in the challenging external environment. Acuité takes note of group's strategic focus on reducing its wholesale book through sale of assets to Asset Reconstruction companies including EARCL and AIFs. In this regard, in FY2020, the group launched a USD 425mn corpus last mile Real Estate Financing AIF in partnership with South Korean financial conglomerate Meritz Financial Group, of which one tranche of USD 240mn has already been concluded.

Acuité believes that the ability to curtail asset quality risks in credit business whilst demonstrating sustainable improvement in profitability along with sustainable growth in SME portfolio in the evolving operating environment would remain key rating monitorables.

About the company

Incorporated in Mumbai, Edelweiss Housing Finance Limited (EHFL) is a housing company that commenced its operations in 2010. The company is a subsidiary of Edelweiss Group and is engaged in providing home loans and Loan Against Property (LAP) to customers from all the income segments.

About the Group

Headquartered in Mumbai, Edelweiss Financial Services Limited (EFSL), the holding company of Edelweiss Group, was incorporated in 1995 and has diversified its line of operations across various fund based and non-fund based businesses. Edelweiss Group is promoted by Mr. Rakesh Shah and Mr. Venkat Ramaswamy and offers a bouquet of financial services to a diversified client base across domestic and global geographies. Its key line of business includes; Credit (retail and corporate), Asset Management, Asset Reconstruction, Insurance (life and general) and Wealth management including Capital Markets. The Edelweiss Group comprises Edelweiss Financial Services Limited, 30 subsidiaries and 10 associates as on December 31, 2021 and 76 trusts as on March 31, 2021. Post divestment of significant stake in wealth management business, the number of subsidiaries and associate companies have changed. Edelweiss group has a pan India presence with a global footprint extending across geographies with offices in New York, Mauritius, Dubai, Singapore, Hong Kong and UK.

Analytical Approach

Acuité has adopted a consolidated approach on Edelweiss Financial Services Limited (EFSL) along with its 30 subsidiaries and 10 associates (for list of subsidiaries and associate refer Annexure I) as on December 31, 2021 and 76 trusts as on March 31, 2021, collectively referred to as 'Edelweiss group'. The approach is driven by common promoters, shared brand name, significant operational and financial synergies between the companies. Acuité has rated secured NCDs as well as perpetual NCDs issued by Edelweiss group companies. It is pertinent to note that, Unsecured Subordinated NonConvertible Debentures (i.e. Perpetual NCDs) are rated at a lower level vis-à-vis the regular secured debt instruments. This is in view of the significant loss absorption characteristics associated with these perpetual instruments. The issuer may be required to skip/defer the coupon/interest payment in case of certain events such as decline in CAR below regulatory thresholds.

Extent of consolidation: Full

Key Rating Drivers

Strength

Strong parentage and diversified product offerings

Edelweiss Group is promoted by Mr. Rakesh Shah and Mr. Venkat Ramaswamy, who are seasoned professionals in the financial services industry with over two decades of experience. The promoters are supported by experienced professionals who are into financing, wealth, and asset management businesses. The group has a diverse business profile in financial services with presence in segments such as retail credit (including agri-finance), wholesale lending, warehousing services, asset reconstruction, asset management, wealth management and capital market including stock broking and insurance business. The various

verticals of the group as mentioned above are now under the following broad categories i.e. Credit (retail and corporate), Asset Management, Asset Reconstruction, Insurance (life and

general) and Wealth management including Capital Markets. The Group had consolidated loan book of Rs.12,328 Cr. (excluding Loan Against Securities portfolio which used to form part of wealth management business) as on September 30,2021 as against 14,059 Cr. (excluding Loan Against Securities portfolio which used to form part of wealth management business) as on March 31,2021, of which retail credit was Rs.5.768 Cr. (Rs.6,813 as on March 31,2021) and wholesale credit at Rs.6,560 Cr. as on September 30,2021 (Rs.7,246 Cr. as on March 31,2021). The wholesale segment comprised loans to realtors and structured Credit. The Group has been attempting to gradually increase its exposure to retail segment and is in talks with multiple banks for lending under co-origination model. It has taken several steps to reduce its exposure to the wholesale segment and reorient the portfolio toward small and midcorporate lending segments. Besides the fund-based activities, Edelweiss Group also has an established franchise in the capital market related business across corporate finance and advisory domains including broking, investment banking, wealth management, and asset management. The group has completed sale of its majority stake in wealth management business to PAG. As on March 31, 2021, the group had customer assets of about Rs.280,800 Cr. under the advisory vertical (about Rs.207,700 Cr. as on March 31,2020). Most of the businesses of the group present significant synergies amongst themselves and growth potential both on the assets and liabilities side. The access to a pool ofHNIs can be leveraged to create fundbased structures which can be utilized to support the AUM growth of the group. Acuité believes Edelweiss group's established position in financial services and diversified range of fee and fund-based product offerings will continue to support its business risk profile.

Diversified funding profile

The group's financial flexibility is supported by its demonstrated ability to mobilise resources from diversified set of investors across domestic banks, Institutional investors and lenders, foreign investors and domestic retail investors amongst others. The Group has attracted investments from reputed international investors such as CDPQ (Caisse de dépôt et placement du Québec), and PAG Asia. In the past, the Group also raised capital from KORA Management and Sanaka Capital. In July 2021, the Group announced stake sale of 70%, subject to regulatory approvals, in its insurance broking business to existing investor, Gallagher Insurance for consideration of ~Rs.308 Cr. Pursuant to this deal, Gallagher Insurance will have complete ownership of this business. Of the total borrowings (excluding asset backed borrowings and equity convertible instruments) of Rs.25,695 Cr. As on March 31,2021, 43% is being funded through banks, 26% through retail investors, 11% by mutual funds, and the balance 20% mainly through FIs, PFs, and Insurance. As on September 30, 2021, borrowings stood at Rs.24,775 Cr. and proportion of funding from retail investors rose to 31%. The Group's NCD issuances targeted at the retail investor have been well accepted in the markets, which has helped the Group in increasing its retail funding to Rs.7,680 Cr. (31%) as on September 30, 2021 as against Rs.5,371 Cr. (11%) as on March 31, 2018. The Group also has large institutional client base in its various its funds such as distressed Credit fund, Real estate Credit Fund, Structured debt fund and Infrastructure Fund. The group has also demonstrated its ability to support chunky real estate projects with a need for completion funding by setting up an AIF with South Korea based Meritz Group with a corpus of USD 425 million. Acuité expects the Group to continue to benefit from diversified funding mix across domestic banks, Institutional investors and lenders, foreign investors and domestic retail investors amongst others.

Adequate gearing levels and liquidity buffer

The Group's networth (including compulsorily convertible debentures and excluding minority interest) stood at Rs.7443 Cr. as on March 31,2021 (Rs.7233 Cr. as on March 31, 2020). The improvement in the networth was mainly on account of profits reported for FY2021 led by one time gain reported on sale of majority stake in wealth management business. Concomitantly, capital adequacy of the Group improved to 21.50% as on March 31,2021 (20.76 % as on March 31, 2020). The capital adequacy stood at 20.85% as on June 30,2021. The group further reduced its borrowings (excluding asset backed borrowings) to Rs.25695 Cr. as on March 31,2021 as against Rs.33754 Cr. as on March 31,2020 (Rs.45217 Cr. as on March 31,2019)

translating into improved gearing ratio (reported borrowings/networth) of 3.5 times as on March 31,2021 from 4.7 times as on March 31,2020 (5.9 times as on March 31,2019). The gearing ratio (reported borrowings/networth) stood at 3.31 times as on September 30,2021. Further, the Group continued to maintain adequate liquidity buffer over this period and reported liquidity of Rs.5,750 Cr. as on October 30,2021 comprising Rs.5,450 Cr. of overnight liquidable and treasury assets and Rs.300 Cr. in bank lines.

Weakness

Moderation in profitability indicators

The Group reported moderate profitability for FY2021 with profit after tax (excluding minority interest) of Rs.254 Cr. (loss (excluding minority interest) of Rs.2,044 Cr. in FY2020) driven by one time gain of ~Rs.1,400 Cr. reported on sale of majority stake in wealth management business to PAG. Credit costs, though elevated, reduced to Rs.2,073 Cr. during FY2021 from Rs.3562 Cr. during FY2020. The future trend in Credit costs will be linked to the fresh slippages in both the segments i.e. retail as well as wholesale segments. The cost to income ratios (exinsurance) for FY2021 remained stable vis-à-vis FY2020 levels at 56%. Furthermore, NIMs declined to 0.77% of average earning assets in FY2020 as against 3.03% of average earning assets in FY2020 due to degrowth in loan book resulting in decline in interest income along with higher cost of funds due to negative carry of higher liquidity. The Group reported profit after tax (excluding minority interest and including share in associate's profit) of Rs.25 Cr. on total income of Rs.1649 Cr. for Q1FY2022. Acuité notes that the loss of revenues from the wealth management business in the light of its majority stake sale is expected to impact future profitability. Acuité also takes notes of several measures taken by the Group to rationalize cost and improve profitability including co-origination model for building retail portfolio which is expected to reflect in coming quarters. Acuité believes that Group's ability to sustain improvement in earnings profile in the current operating environment coupled with the intense competition in the retail segment will be key rating monitorable.

Subdued asset quality

Edelweiss Group's key product offerings are spread across two segments i.e. retail segments and wholesale segments. The retail segment (47% of the loan book as on September 30,2021) comprises housing finance, Loan against Property, Construction finance, SME loans, Loan against Securities while the wholesale segment (53% of the loan book as on September 30,2021) comprises Structured Collateralized Credit and Real Estate financing. The Group had loan book of Rs.12,328 Cr. (excluding Loan Against Securities portfolio forming part of wealth management business) as on September 30,2021 against Rs.14,059 Cr. (excluding Loan Against Securities portfolio forming part of wealth management business) as on March 31,2021 and Rs.21,032 Cr. as on March 31, 2020. The decline in the loan book is primarily driven by the management's strategic decision to consciously scale down the exposure to the wholesale segment with early signs of pick-up in disbursements seen in the retail segment. While there is decline in loan book, the asset quality witnessed positive traction with the Group's Gross NPAs (GNPAs) at Rs.622 Cr. (4.5% of loan assets) as on September 30, 2021 as against Rs.1182 Cr. (7.7% of loan assets) as on March 31, 2021 with retail segment at Rs.247 Cr.(3.5% as on September 30,2021) as against Rs.316 Cr. (3.9% as on March 31,2021) and wholesale at Rs.375 Cr. (5.7% as on September 30,2021) as against Rs.866 Cr. (12.0% as on March 31,2021). As on September 30, 2021, top 20 exposures accounted for ~29% of the overall loan book. The group's wholesale segment mostly comprises exposures to real estate developers for their projects. The cash flows of these realtors and the quality of these exposures is linked to the revival in the real estate cycle. The group has already initiated steps to prune its exposure to the wholesale segment through various initiatives such as slowing down fresh sanctions and sell down of existing assets to dedicated funds and ARCs. In FY2020, the group launched a USD 425mn corpus last mile Real Estate Financing AIF in partnership with South Korean financial conglomerate Meritz Financial Group. The first tranche of the USD 240 million corpus is completed. Edelweiss holds 30% stake in this fund and the remaining is held by Meritz Financial Group, a Seoul headquartered conglomerate. Since the group has decided to curtail its exposure to wholesale segment, the retail products like retail mortgage, SME lending, LAS

along with smaller ticket lending to mid corporates under the coorigination model with banks are expected to be the drivers of future growth. In the retail segment, SME loans and retail mortgage comprise the key products contributing to ~45% of the overall loan book as on September 30, 2021. The retail portfolio is relatively more granular with a median ticket size of ~1 Cr. for secured SME loan, Rs.15 lakhs for housing loan and 19 lakhs for LAP. With the increasing focus on relatively less risky retail segment, the portfolio is expected to be more granular going forward. Acuité believes that the Group's ability to attain any significant improvement in asset quality amidst current economic environment will remain a key rating sensitivity.

ESG Factors Relevant for Rating

Edelweiss Group offers a bouquet of financial services to a diversified client base across domestic and global geographies. The Group has presence in segments such as retail credit (including agri-finance), wholesale lending, warehousing services, asset reconstruction, asset management, wealth management and capital market including stock broking and insurance business. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to capital markets to avoid fraud, insider trading and other anti-competitive behaviour. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. For the industry, retention, and development of skilled manpower along with equal opportunity for employees is crucial. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The materiality of environmental factors is low for this industry.

Edelweiss Group's board comprises of eleven directors with two women directors. Of the total eleven directors, six are independent directors. The Group maintains adequate disclosures for business ethics which can be inferred from its policies relating to code of conduct, whistle blower protection and related party transactions. The Group has formed a Risk Committee with four out of five members being independent directors for among other things, identifying and evaluating risks and development, implementing and tracking risk management efforts. All the members of Audit Committee are independent directors. For redressal of grievances of the security holders, it has constituted a Stakeholders' Relationship Committee. The Group also has a committee for appointment, remuneration and performance evaluation of the Board. On the social aspect, the Group has taken development and training initiatives towards career development of its employees. The Group has put in place data privacy policy to ensure adequate safeguards for collection, storage and processing of personal and sensitive information and data of customers and third parties. Further, the Group has set up EdelGive foundation, a grant-making foundation which is funding and supporting the growth of small to mid-sized grassroots NGOs committed to empowering vulnerable children, women, and communities. Over the last 13 years, EdelGive has supported over 150 organizations across 111 districts in 14 states of India.

Rating Sensitivity

- Lower than expected growth in AUM
- Significant spike in Credit costs translating into material reduction in profitability and capital adequacy
- Higher than expected asset quality pressures
- Changes in Regulatory environment
- Significant capital infusion

Material Covenants

Edelweiss Group is subject to covenants stipulated by its lenders/investors in respect of

various parameters like capital structure, asset quality among others. As per confirmation received from the Group vide mail dated December 20, 2021, 'the Group is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity Position: Adequate

EFSL's liquidity profile is supported by the group's centralised treasury operations and adequate liquidity position. The group has demonstrated the ability to raise medium to long term funding from banks/capital markets which should support the Group's ability to plug any possible mismatches. The Group's liquidity profile is supported by funding from diversified base i.e. banks and financial institutions along with capital market instruments like CBLO borrowings, Commercial Papers and NCDs. The Group on a consolidated basis had maintained liquidity buffers of Rs.5,750 Cr. (includes bank lines of Rs.300 Cr.) as on October 30, 2021.

Outlook: Negative

Acuité believes that the Edelweiss Group's Credit profile will continue to face pressures over the near to medium term on account of the deterioration of asset quality and profitability. The weakness in the operating environment and a slower than expected economic revival across the country can impinge on the near term performance. Acuité will be closely monitoring the performance of the Group and any further impairment in asset quality or reduction of profitability will impart a strong negative bias to the rating. The outlook may be revised to Stable in case Edelweiss Group is able to demonstrate significant and sustained improvement in asset quality and profitability

Key Financials - Standalone / Originator

	Unit	FY21	FY20
		(Actual)	(Actual)
Total Assets	Rs. Cr.	4931.10	5048.70
Total Income*	Rs. Cr.	149.25	168.99
PAT	Rs. Cr.	3.73	1.56
Net Worth	Rs. Cr.	762.79	769.07
Return on Average Assets (RoAA)	(%)	0.07	0.03
Return on Average Net Worth(RoNW)	(%)	0.49	0.20
Total Debt/Tangible Net Worth (Gearing)	Times	4.64	5.02
Gross NPA	(%)	3.50	1.74
Net NPA	(%)	3.15	1.49

***Total income equals to Total Income net off interest expense**

Ratios as per Acuité calculations

Key Financials - Consolidated

	Unit	FY21	FY20
		(Actual)	(Actual)
Total Assets	Rs. Cr.	45,016	53,324
Total Income*	Rs. Cr.	7,015	4,810
PAT	Rs. Cr.	254	(2,044)
Net Worth	Rs. Cr.	7,443	7,233
Return on Average Assets (RoAA)	(%)	0.52	(3.48)
Return on Average Net Worth(RoNW)	(%)	3.47	(27.46)
Total Debt/Tangible Net Worth (Gearing)	Times	3.7	4.9

Gross NPA	(%)	7.73	5.30
Net NPA	(%)	4.10	4.10

*Total income equals to Total Income net off interest expense

Ratios as per Acuité calculations

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Dec 2021	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE AA Negative (Assigned)
01 Aug 2019	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE AA+ (Withdrawn)
03 Aug 2018	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE AA+ Stable (Reaffirmed)
16 Aug 2017	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE AA+ Stable (Assigned)

Annexure I: The following subsidiaries and associate company of EFSL have been considered for consolidation:
As on December 31, 2021

Sr. No.	Name of entity	Relationship with EFSL
1	ECap Equities Limited	Subsidiary
2	Edelweiss Investment Adviser Limited	Subsidiary
3	EC Commodity Limited	Subsidiary
4	Edel Land Limited	Subsidiary
5	Edel Finance Company Limited	Subsidiary
6	Edelweiss Rural & Corporate Services Limited	Subsidiary
7	EdelGive Foundation	Subsidiary
8	ECL Finance Limited	Subsidiary
9	Edelweiss Housing Finance Limited	Subsidiary
10	Edelweiss Retail Finance Limited	Subsidiary
11	Edelweiss Asset Reconstruction Company Limited	Subsidiary
12	Edelweiss Alternative Asset Advisors Limited	Subsidiary
13	Edelweiss Asset Management Limited	Subsidiary
14	Edelweiss Trusteeship Company Limited	Subsidiary
15	Allium Finance Private Limited	Subsidiary
16	Edel Investments Limited	Subsidiary
17	Edelcap Securities Limited	Subsidiary
18	Edelweiss Capital Services Limited	Subsidiary
19	Edelweiss Comtrade Limited	Subsidiary
20	Edelweiss Securities and Investments Private Limited	Subsidiary
21	Edelweiss Real Assets Managers Limited	Subsidiary
22	Sekura India Management Limited	Subsidiary
23	Edelweiss Tokio Life Insurance Company Limited	Subsidiary
24	Edelweiss General Insurance Company Limited	Subsidiary
25	EC International Limited	Subsidiary
26	Edelweiss Alternative Asset Advisors Pte. Limited	Subsidiary

27	Edelweiss International (Singapore) Pte. Limited	Subsidiary
28	EAAA LLC	Subsidiary
29	Edelweiss Global Wealth Management Limited	Subsidiary
30	EW Special Opportunities Advisors LLC	Subsidiary
31	Edelweiss Securities Limited	Associate
32	Edelweiss Finance & Investments Limited	Associate
33	Edelweiss Broking Limited	Associate
34	Edelweiss Custodial Services Limited	Associate
35	ESL Securities Limited	Associate
36	Edelweiss Securities (Hong Kong) Private Limited	Associate
37	Edelweiss Investment Advisors Private Limited	Associate
38	Edelweiss Financial Services Inc	Associate
39	Edelweiss Financial Services (UK) Limited	Associate
40	Edelweiss Securities (IFSC) Limited	Associate

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Secured Retail Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE AA Negative Reaffirmed

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About Acuité Ratings & Research

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