

Press Release

Edelweiss Retail Finance Limited

February 05, 2021

Rating Reaffirmed



Total Facilities Rated*	Rs.350.00 Cr.
Unsecured Perpetual Non-Convertible Debentures	Rs.100.00 Cr.
Long Term Rating	ACUITE AA-/ Negative (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	Rs.250.00 Cr.
Long Term Rating	ACUITE AA/ Negative (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.100.00 Cr. Unsecured Subordinated Perpetual Non-Convertible Debenture and the long term rating of '**ACUITE AA**' (read as **ACUITE double A**) on the Rs.250.00 Cr Secured Non-Convertible Debenture of Edelweiss Retail Finance Limited (ERFL). The outlook continues to be '**Negative**'.

The rating reaffirmation reflects Edelweiss Group's established track record in financial services with diversified business 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 book with focus on the co-origination model which will keep them asset light, thereby reducing its reliance for growth capital for near term. The rating also takes into consideration demonstrated ability of fund raising as depicted by capital infusion of Rs.1040 Cr. from CDPQ (Canadian Pension Fund) in the ECL Finance Limited via compulsory convertible debentures and Rs.117 Cr. from KORA Management and Rs.177 Cr. from Sanaka Capital in Edelweiss Global Investment Advisors (EGIA) via compulsory convertible preference shares.

The rating is partially offset by moderation in profitability indicators as depicted by loss of Rs.2,045 Cr. in FY2020 as against profit after tax of Rs.995 Cr. in FY2019 coupled with declining loan book (Rs.18,274 Cr. as on September-2020 as against Rs.21,032 Cr. as on March 31, 2020) and weak asset quality (GNPA of 5.5% as of September 30, 2020 as against 5.3% as of March 31, 2020). Furthermore, high concentration in wholesale Credit (Top 20 borrowers accounting for ~21% of overall loan book as on September 30, 2020), particularly exposure to real estate developers may build up further pressure on asset quality in the light of challenging external environment. Acuite 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, 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.

Although, in H1FY2021, the Group reported losses, some traction was seen in earnings profile in Q2FY2021 with losses narrowing down to Rs.56 Cr. from Rs.264 Cr. in Q1FY2021 largely supported by steady stream of fee and advisory business. Acuite believes that the group's ability to sustain improvement in its profitability while maintaining potential asset quality risks in the current operating environment would remain key rating monitorable.

About the Group:

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 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), Wealth management including Capital Markets, Asset Management, Asset Reconstruction and insurance (life and general).

The Edelweiss Group comprises Edelweiss Financial Services Limited, 56 subsidiaries, 66 trusts and 5 associate companies (as on March 31, 2020). 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.

About the company:

Edelweiss Retail Finance Limited (erstwhile Affluent Dealcom Private Limited) was incorporated in 1997 as a Private limited company. The company was acquired by Edelcap Securities Limited (ESL; stepdown subsidiary of Edelweiss Financial Services Limited) and converted to a public limited company. Subsequently, the name was changed to Edelweiss Retail Finance Limited in 2014. ERF's key product offerings include SME Finance, loan against property, loan against shares, construction finance and rural finance. The company reported total assets and networth of Rs.19,412 Cr. and Rs.4,630 Cr., respectively as on March 31, 2020 as against Rs.24,139 Cr and Rs.4,632 Cr., respectively, as on March 31, 2019.

Analytical approach:

Acuite has adopted a consolidated approach on Edelweiss Financial Services Limited (EFSL) along with its 56 subsidiaries and 5 associates (as on March 31, 2019), collectively referred to as 'Edelweiss group'. The approach is driven by common promoters, shared brand name, significant operational and financial synergies between the companies.

Acuite has rated regular NCDs as well as perpetual NCDs issued by Edelweiss group companies. It is pertinent to note that, Unsecured Subordinated Non-Convertible Debentures (i.e. Perpetual NCDs) are rated at a lower level vis-à-vis the regular 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:****Strengths:****• Strong parentage and diversified product offerings**

Edelweiss Group is promoted by Mr. Rashesh 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, wealth management, asset management, capital market including stock broking and insurance business. The various verticals of the group as mentioned above are now under three broad categories i.e. Credit (retail and corporate), Wealth management including Capital Markets, Asset Management, Asset Reconstruction and insurance (life and general).

The Group had loan book of Rs.18,274 Cr. as on September 30, 2020 (Rs.29,724 Cr. as on September 30, 2019), of which retail credit was Rs.9,662 Cr. (Rs.15,111 Cr. as on September 30, 2019) and wholesale Credit was Rs. 8,612 Cr. (Rs.14,613 Cr. as on September 30, 2019). 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 various banks for lending under co-origination model. It proposes to reduce its exposure to the wholesale segment and reorient the portfolio towards small and mid-corporate 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. As on March 31, 2020, the group had customer assets AUM of Rs.207,700 Cr. under the advisory vertical. 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 of HNIs can be leveraged to create fund-based structures which can be utilised to support the AUM growth of the group.

Acuite 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

Edelweiss group has always demonstrated healthy resource raising ability from diverse lenders and investors. The Group's Net worth (including compulsorily convertible debentures) stood at Rs.7,188 Cr. as on March 31, 2020 (Rs.7,674 Cr. as on March 31, 2019). The decline in the networth was mainly on account of loss undertaken by the company in order to provide for impaired assets in Q4FY2020. The Group has demonstrated its ability to attract investments from reputed international investors such as CDPQ (Caisse de

dépôt et placement du Québec), KORA Management and Sanaka Capital.

Recently, the group announced sale of 51% stake in its wealth management division to PAG Asia. This sale is valued at ~Rs.2,200 Cr. The Group's Capital adequacy stood at 20.62% as on September 30, 2020 as against 20.76 % as on March 31, 2020. The Group has gradually reduced its borrowings to Rs.30,485 Cr. as on September 30, 2020 from Rs.33,754 Cr. as on March 31, 2020 and Rs.43,201 Cr.. as on March 31, 2019 (Ex-CBLO). Of the total borrowings as on September 30, 2020, 43% is being funded through banks, 27% through retail investors, 8% by mutual funds, and the balance 22% mainly through Corporates, PFs, and Insurance. 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.9,451 Cr. (28%) as on March 31, 2020 as against Rs.5,371 Cr. (11%) as on March 31, 2018. The strong patronage of the Group amongst retail investors augurs well from a future funding standpoint, since retail investors are expected to be more stable than wholesale investors. Most of the bank borrowings and NCDs are long tenured with tenures beyond 3 years. The Group has significantly reduced its dependence on short term borrowings like Commercial Paper. In view of the tight liquidity situation caused by these events, the Group focused on conserving its liquidity rather than going in for asset growth. The Group is also exploring options like securitization and Partial Guarantee based structures to support its financing requirements. 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 also has large institutional client base in its various 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.

Weaknesses:

• Moderation in profitability indicators

Earnings profile of the Group witnessed sharp moderation in FY2020 as reflected in losses of Rs.2,045 Cr. as against Profit After Tax (PAT) of Rs.995 Cr. primarily on account of deterioration in asset quality coupled with revision in Expected Credit Loss model and an upfront cost due to Covid-19 pandemic related disruptions in the economy resulting in elevated Credit costs of Rs.3,562 Cr. in FY2020 (This includes additional impairment for assets to be sold) as against Rs.485 Cr. in FY2019. 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 (ex-insurance) has spiked from 50% for FY2019 and at 56% for FY2020. Furthermore, NIMs declined to 3.84% of average earning assets in FY2020 as against 5.06% of average earning assets in FY2019 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. Although, in H1FY2021, the Group reported losses, some traction was seen in earnings profile in Q2FY2021 with losses narrowing down to Rs.56 Cr. from Rs.264 Cr. in Q1FY2021 largely supported by steady stream of fee and advisory business. Since group has plans to divest its major stake in wealth management segment the revenues from the advisory activities are also expected to moderate thereby impacting future profitability. Acuité 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.

• Deterioration in asset quality

Edelweiss Group's key product offerings are spread across two segments i.e. retail segments and wholesale segments. The retail segment (53% of the loan book as on September 30, 2020) comprises housing finance, Loan against Property, Construction finance, SME loans, Loan against Shares while the wholesale segment (47% of the loan book as on September 30, 2020) comprises Structured Collateralized Credit and Real Estate financing. The group's loan book stood at Rs.18,274 Cr. as on September 30, 2020 as against Rs.21,032 Cr. as on March 31, 2020 and Rs.36,129 Cr. as on March 31, 2019. 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 coupled with subdued disbursements in the Retail segment. While there is decline in loan book, the asset quality witnessed deterioration with the Group's Gross NPAs (GNPAs) rising from Rs.677 Cr. (1.9% of loan assets) as on March 31, 2019 to Rs.1,114 Cr. (5.3% of loan assets) as on March 31, 2020 primarily due to spike in GNPAs of wholesale segment (accounting for 88% of the overall GNPAs as on March 31, 2020) from Rs.497 Cr. (2.8%)

as on March 31,2019 to Rs.980 Cr. (9.9%) as on March 31,2020. The GNPA stood at Rs.998 Cr. (5.5%) as on September 30,2020. As on September 30, 2020, top 20 exposures accounted for 21% 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. In Q3 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 co-origination 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, 2020. 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.

Acuite believes that the Group's ability to attain any significant improvement in asset quality amidst current economic environment will remain a key rating sensitivity.

Rating Sensitivities

- Lower than expected improvement in AUM and profitability
- Significant spike in Credit costs translating into material reduction in 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 from Edelweiss, they are compliant with covenants stipulated by 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. 6,600 Cr. (includes short term loan book of Rs.1,550 Cr.) as on September 30, 2020. ECLFL is supported by strong parentage of Edelweiss Group and can tap the excess liquidity available with the Group in case of future exigencies.

Outlook: Negative

Acuite 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. Acuite 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.

EFSL- Key financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	53,324	64053
Total Income*	Rs. Cr.	4,810	6,159
PAT	Rs. Cr.	(2,044)	1,044
Net Worth	Rs. Cr.	7,233	7674

Return on Average Assets (RoAA)	(%)	(3.48)	1.65
Return on Average Net Worth (RoNW)	(%)	(27.46)	14.33
Total Debt/Tangible Net Worth (Gearing)	Times	4.91	6.06
Gross NPA	(%)	5.30	1.87
Net NPA	(%)	4.10	0.83

*Total income equals to Total Income net off interest expense

ERFL - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1978.28	2439.15
Total Income*	Rs. Cr.	82.97	185.16
PAT	Rs. Cr.	1.07	33.86
Net Worth	Rs. Cr.	463.04	463.20
Return on Average Assets (RoAA)	(%)	0.05	1.18
Return on Average Net Worth (RoNW)	(%)	0.23	7.58
Total Debt/Tangible Net Worth (Gearing)	Times	3.14	4.20
Gross NPA	(%)	1.22	0.99
Net NPA	(%)	1.01	0.83

*Total income equals to Total Income net off interest expense

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
08-September-2020	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA-/Negative (Reaffirmed)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA-/Negative (Reaffirmed)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA-/Negative (Reaffirmed)
	Proposed Secured Non-Convertible Debentures	Long Term	250.00	ACUITE AA/Negative (Reaffirmed)
30-April-2020	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA-/Negative (Reaffirmed)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA-/Negative (Reaffirmed)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA-/Negative (Reaffirmed)
	Proposed Secured Non-Convertible Debentures	Long Term	250.00	ACUITE AA/Negative (Assigned)
06-Feb-2020	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA-/Negative (Rating Downgraded from ACUITE AA/Negative)

	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA-/Negative (Rating Downgraded from ACUITE AA/Negative)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA-/Negative (Rating Downgraded from ACUITE AA/Negative)
1-August-2019	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA/Negative (Reaffirmed; Outlook revised to Negative from Stable)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA/Negative (Reaffirmed; Outlook revised to Negative from Stable)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA/Negative (Reaffirmed; Outlook revised to Negative from Stable)
03-August-2018	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA/ Stable (Reaffirmed)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA/ Stable (Reaffirmed)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA/ Stable (Reaffirmed)
02-December-2017	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	100.00	ACUITE AA/ Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Rs. 100.00 Cr.						
INE528S08050	Unsecured Subordinated Perpetual Non-Convertible Debentures	26-Dec-17	9.75%	NA	20.00	ACUITE AA-/Negative (Reaffirmed)
INE528S08068	Unsecured Subordinated Perpetual Non-Convertible Debentures	07-Feb-18	10.00%	NA	25.00	ACUITE AA-/Negative (Reaffirmed)
-	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	NA	NA	NA	55.00	ACUITE AA-/Negative (Reaffirmed)
Rs. 250.00 Cr.						
-	Proposed Secured Non-Convertible Debentures	NA	NA	NA	250.00	ACUITE AA/Negative (Reaffirmed)

- The following Subsidiaries of EFSL have been considered for consolidation: As on March 31, 2020

Sr.No.	Name of Entity	Relationship with EFSL
1	Edelweiss Securities Limited	Subsidiary
2	Edelweiss Finance & Investments Limited	Subsidiary
3	ECL Finance Limited	Subsidiary
4	Edelweiss Global Wealth Management Limited	Subsidiary
5	Edelweiss Gallagher Insurance Brokers Limited	Subsidiary
6	Edelweiss Trustee Services Limited	Subsidiary
7	Edelcap Securities Limited	Subsidiary
8	Edelweiss Asset Management Limited	Subsidiary
9	Ecap Equities Limited	Subsidiary
10	Edelweiss Broking Limited	Subsidiary
11	Edelweiss Trusteeship Company Limited	Subsidiary
12	Edelweiss Housing Finance Limited	Subsidiary
13	Edelweiss Investment Adviser Limited	Subsidiary
14	EC Commodity Limited	Subsidiary
15	Edel Land Limited	Subsidiary
16	Edelweiss Custodial Services Limited	Subsidiary
17	Edel Investments Limited	Subsidiary
18	Edelweiss Rural & Corporate Services Limited	Subsidiary
19	Edelweiss Comtrade Limited	Subsidiary
20	Edel Finance Company Limited	Subsidiary
21	Edelweiss Retail Finance Limited	Subsidiary
22	Edelweiss Multi Strategy Fund Advisors LLP	Subsidiary
23	Edelweiss Resolution Advisors LLP	Subsidiary
24	Edelweiss Holdings Limited	Subsidiary
25	Edelweiss General Insurance Company	Subsidiary
26	Edelweiss Finvest Private Limited	Subsidiary
27	Edelweiss Securities (IFSC) Limited	Subsidiary
28	Alternative Investment Market Advisors Private Limited	Subsidiary
29	Edelweiss Securities Trading and Management Private Limited	Subsidiary
30	Edelweiss Securities and Investment Private Limited	Subsidiary
31	Edelweiss Securities (Hong Kong) Private Limited	Subsidiary
32	EC Global Limited	Subsidiary
33	EC International Limited	Subsidiary
34	EAAA LLC	Subsidiary
35	EFSL International Limited	Subsidiary
36	Edelweiss Capital (Singapore) Pte. Limited	Subsidiary
37	Edelweiss Alternative Asset Advisors Pte. Limited	Subsidiary
38	Edelweiss International (Singapore) Pte. Limited	Subsidiary
39	Edelweiss Investment Advisors Private Limited	Subsidiary
40	Aster Commodities DMCC	Subsidiary
41	Edelweiss Financial Services (UK) Limited	Subsidiary
42	Edelweiss Financial Services Inc.	Subsidiary
43	Edelweiss Alternative Asset Advisors Limited	Subsidiary

44	EW Clover Scheme - 1	Subsidiary
45	Edelvalue Partners	Subsidiary
46	Edelgive Foundation	Subsidiary
47	Lichen Metals Private Limited	Subsidiary
48	EW India Special Assets Advisors LLC	Subsidiary
49	Edelweiss Private Equity Tech Fund	Subsidiary
50	Edelweiss Value and Growth Fund	Subsidiary
51	Edelweiss Asset Reconstruction Company Limited	Subsidiary
52	EW Special Opportunities Advisors LLC	Subsidiary
53	Edelweiss Tokio Life Insurance Company Limited	Subsidiary
54	Allium Finance Private Limited	Subsidiary
55	Retra Ventures Private Limited	Subsidiary
56	ESL Securities Limited	Subsidiary

Contacts

Analytical	Rating Desk
<p>Mohit Jain Senior Vice President - Rating Operations Tel: 022-49294029 mohit.jain@acuite.in</p> <p>Shrey Khandelwal Analyst - Rating Operations Tel: 022-49294072 shrey.khandelwal@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in</p>

About Acuite Ratings & Research:

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