

## Press Release

Patel Engineering Limited

August 06, 2019

**Rating Upgraded**



<b>Total Bank Facilities Rated*</b>	Rs. 6215.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Upgraded from ACUITE A3)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 6215.00 crore bank facilities of PATEL ENGINEERING LIMITED (PEL). The outlook is '**Stable**'.

The rating upgrade reflects Acuité's expectation of steady improvement in the scale of operations of the company on the back of it healthy order book position. PEL's order book position has sequentially improved to around Rs.10,215 crore as on March 31, 2019 as compared to Rs.8,241 crore a year ago. The upgrade also reflects improvement in the liquidity of the company on the back of healthy traction on pending claims realisation. PEL has monetised its non-core assets to reduce its long term debt. The company is in advance stages of monetising its non-core assets additionally to the tune of Rs.220 crore to further reduce its debt levels. Acuité believes that reduction in riskier real estate business and increased focus towards company's core EPC business and ability to successfully monetise its real estate assets is likely to augur well over the medium term.

Incorporated in 1949, Patel Engineering Limited (PEL) has been engaged in the construction of dams, bridges, tunnels, roads, piling works, industrial structures and other kinds of heavy civil engineering works in areas like hydro, irrigation & water supply, urban infrastructure and transport. PEL has also forayed into development of power, road and real estate projects in the past. The company has a consistent track record in executing complex domestic and international projects. PEL has completed over 84 dams, 33 hydroelectric projects (plus 13 current projects), and 200 km of tunneling projects. As on March 31, 2019 PEL has an order book position from engineering and construction (EPC) business of Rs. 10,215 Cr.

### Analytical Approach

Acuité has taken a standalone view of the financial and business risk profile of PEL.

### Key Rating Drivers

#### Strengths

- **Established track record of operations and experienced management**

PEL has been engaged into EPC/infrastructure development for more than six decades with national presence and major operations spread all over India. Mr. Rupen Patel, Managing Director of PEL, has an experience of more than two decades in the construction industry. His father, Mr. Pravin Patel (Ex-Chairman) has a wide experience of more than four decades in EPC industry, town planning and architecture. The management is ably supported by a well-qualified and experienced team of professionals. Some of the landmark projects of PEL include 1880 MW Koyna Hydro Electric project, 900 MW Srisaillam Left Bank Hydro Power Station, Kalwakurty Lift Irrigation Project, Construction of high altitude roads (Karzok to Chumar), construction of Dam for Shillong Water Supply and the Tuirial Hydro Electric Project in Mizoram among others. The extensive experience of the promoters in the industry has helped the company build its market presence.

The track record of the company in moderate to large infrastructure contracts is reflected through its healthy order book position of Rs. 10,215 Cr. as on March 31, 2019, thereby providing a strong revenue

visibility. The order book of PEL is also well diversified among segments like hydro power/ tunneling, irrigation, transportation & urban infrastructure. Acuite believes that PEL will continue to benefit from its experience in the infrastructure sector and its diversified order book over the medium term, with having projects under L1 category valuing over Rs. 4,150 Cr.

- **Reputed clientele**

Over the years, PEL has gained necessary pre-qualification criteria for heavy infrastructure sectors by successfully completing large ticket, technologically advanced and technically complex projects. On account of its established presence in the industry, PEL has been able to build esteemed client profile spanning both Private as well as Government agencies. Some of the key customers are North Eastern Electric Power Corporation Limited (NEEPCO), National Thermal Power Corporation Limited (NTPC), National Hydro Power Corporation (NHPC), National Highway Authority of India (NHAI), Karnataka State Highways Improvement Project (Government of Karnataka), Satluj Jai Vidyut Nigam Ltd (SJVN, Mini Ratna) and IRCON to name a few. Further, it has entered into joint venture partnerships with several esteemed companies around the globe including Age Construction and Trading Inc, a Turkish Co., KNR Constructions Ltd among others. Joint capabilities of its partners enhance credibility and capability to execute complex and special projects.

- **Moderate financial risk profile**

PEL has moderate financial risk profile marked by healthy net worth, moderate gearing and debt protection measures. PEL's net worth stood healthy at Rs.2,303.78 crore as on March 31, 2019 against Rs.2,225.91 crore as on March 31, 2018 on account of healthy accretion to reserves. Acuite believes that the net worth of the company will remain in the range of Rs.2,400 crore to Rs.2,700 crore over the medium term backed by its healthy order book position providing revenue visibility and stable operating margins in the EPC segment. The leverage and coverage ratios continue to remain healthy.

The gearing levels improved to 0.96 times as on March 31, 2019 against 1.08 times as on March 31, 2018. However, the company has followed an aggressive leverage policy with its peak gearing at 2.78 times as on March 31, 2016. The improvement in debt levels has been post implementation of SDR (through part carve out of debt i.e ~ Rs. 2,125 crore) and S4A schemes of RBI (under prevailing RBI guideline during that time). As part of the restructuring scheme under S4A, existing promoters had infused Rs. 150.00 Cr equity in the company.

The moderate profitability coupled with improved gearing levels has resulted in comfortable debt protection metrics, with interest coverage ratio of 1.48 times in FY2019 and NCA/TD of 0.06 times as on March 31, 2019. The TOL/TNW ratio stood at 2.06 times as on March 31, 2019 on account of high mobilisation advances and trade payables. In FY2019, PEL generated net cash accruals of Rs.123.80 crore as against debt repayment obligation of Rs.26.24 crore. Post restructuring, the debt in the company has been divided into PART-A Debt (outstanding balance) Rs.1,343 Cr. (Fund Based) and unsustainable PART-B debt (outstanding balance) of Rs.606 Cr. Under the scheme, the Part B debt is converted into Optionally Convertible Debentures (OCDs) (repayable from the sixth year) issued to the said lenders with balance Part A debt to be serviced as per the existing terms.

Acuite believes that the debt protection metrics will continue to remain moderate on account of healthy revenue visibility, stable operating margins, absence of any major debt funded capex over the near to medium term and expected realisations from the awarded claims as per the recent amendments in the Arbitration Act.

## **Weaknesses**

- **Working capital intensive operations**

Operations of PEL are highly working capital intensive marked by significantly high Gross Current Assets (GCA) of 824 days in FY2019 as against 767 days in FY2018. The inventory holding period stood at 588 days in FY2019 which is majorly on account of arbitration claims pending awards which are a part of PEL's work in progress. Stretched receivable cycle of 150 days in FY2019 and 136 days in FY2018 reflects arbitration claims (representing ~45 per cent by value) which have been awarded to the company and have not yet been realised.

Further, more than 90 per cent of the contracts won and executed by PEL are from central and state Government agencies. The company has witnessed working capital stretch in the past due to delayed payments from clients which in turn had slowed down project execution in certain cases. PEL's Fund-based working capital limits have remained highly utilised. The company has approached its lenders for

seeking enhancement in its non-fund based limits which will help in releasing 75 per cent of awarded claims by placing bank guarantees with the government (as per the recent government initiatives under Niti Aayog).

However, Acuite believes that timely release of additional limits by the company's lenders will continue to be a key monitorable.

• **Competitive and fragmented industry**

PEL is engaged as an EPC contractor. This particular sector is marked by the presence of several mid to large sized players. The company faces intense pricing competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclicity in the sector. Acuite believes that PEL is well positioned on account of its longstanding relationship with well-established international players in the infrastructure industry and the long track-record of its promoters - spanning nearing six decades. Further, PEL is also exposed to Regulatory Risks which can affect its ability to complete projects in a timely manner and to secure new projects from time to time. PEL had in the past experienced delays in commencement as well as execution of projects on account of delays in regulatory and environmental approvals. This may in turn result in significant cost escalations leading to lower than expected operating profitability.

**Liquidity Position:**

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. However, it is constrained by highly working capital intensive nature of operations. The current ratio of PEL stood at 1.75 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs. 109.08 crore as on March 31, 2019. Acuite believes that liquidity position of the company will continue to remain adequate on account of healthy revenue visibility, improving operating margins in its EPC business and expected monetisation of land parcels.

**Outlook: Stable**

Acuite believes that PEL will maintain 'Stable' financial risk profile over the medium term supported by its experienced management, good revenue visibility backed by a healthy order book position and reputed clientele. The outlook may be revised to 'Positive' in case of higher-than-expected growth in operating income with retention of profitability margins and/or reduction of further debt, if any. The outlook may be revised to 'Negative' in case of any deterioration in the working capital and liquidity position of the company.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	2069.89	2038.90	2925.55
EBITDA	Rs. Cr.	287.06	457.49	536.23
PAT	Rs. Cr.	82.88	59.08	41.82
EBITDA Margin	(%)	13.87	22.44	18.33
PAT Margin	(%)	4.00	2.90	1.43
ROCE	(%)	9.78	10.53	11.32
Total Debt/Tangible Net Worth	Times	0.96	1.08	2.05
PBDIT/Interest	Times	1.48	1.18	1.24
Total Debt/PBDIT	Times	4.63	3.80	5.65
Gross Current Assets (Days)	Days	824	767	750

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

None

**Any other information**

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

## Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Jan-2019	Cash Credit	Long Term	INR 130	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 65	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 113.93	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 97.36	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 98.26	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 76.3	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 222.5	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 136	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 66.81	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 36.57	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 92.11	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	INR 98.39	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	INR 12.01	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	INR 6.5	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	INR 1.33	ACUITE BBB- / Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	INR 10.78	ACUITE BBB- / Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	INR 12.32	ACUITE BBB- / Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	INR 16.15	ACUITE BBB- / Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	INR 20.3	ACUITE BBB- / Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	INR 20.53	ACUITE BBB- / Stable (Reaffirmed)
Working Capital Term Loan	Long Term	INR 13.04	ACUITE BBB- / Stable (Reaffirmed)	

	Working Capital Term Loan	Long Term	INR 21.72	ACUITE BBB- / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 277	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 401.14	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 360	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 226.04	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 375	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 155.16	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 114.92	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 551.95	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 42.32	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 328.84	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 471.78	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 21.12	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 15.31	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 17.03	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 42.72	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 20.63	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 296.93	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 214.9	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 108.3	ACUITE A3 (Reaffirmed)
	Proposed Letter of Credit	Short Term	INR 806	ACUITE A3 (Reaffirmed)
20-July-2018	Cash Credit	Long Term	INR 130	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 65	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 113.93	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 97.36	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 98.26	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 76.3	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 222.5	ACUITE BBB- / Stable (Assigned)

Cash Credit	Long Term	INR 136	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 66.81	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 36.57	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 92.11	ACUITE BBB- / Stable (Assigned)
Term Loan	Long Term	INR 98.39	ACUITE BBB- / Stable (Assigned)
Term Loan	Long Term	INR 12.01	ACUITE BBB- / Stable (Assigned)
Term Loan	Long Term	INR 6.5	ACUITE BBB- / Stable (Assigned)
Term Loan	Long Term	INR 1.33	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 10.78	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 12.32	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 16.15	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 20.3	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 20.53	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 13.04	ACUITE BBB- / Stable (Assigned)
Working Capital Term Loan	Long Term	INR 21.72	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Short Term	INR 277	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 401.14	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 360	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 226.04	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 375	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 155.16	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 114.92	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 551.95	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 42.32	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 328.84	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 471.78	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 21.12	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 15.31	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 17.03	ACUITE A3 (Assigned)

	Letter of Credit	Short Term	INR 42.72	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	INR 20.63	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	INR 296.93	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	INR 214.9	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	INR 108.3	ACUITE A3 (Assigned)
	Proposed Letter of Credit	Short Term	INR 806	ACUITE A3 (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	113.93	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	97.36	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	98.26	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	76.30	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	222.50	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	123.54	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	66.81	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.32	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	92.11	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	98.39	ACUITE BBB/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	12.01	ACUITE BBB/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	-	ACUITE BBB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	-	ACUITE BBB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB/ Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	-	ACUITE BBB (Withdrawn)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	12.32	ACUITE BBB/ Stable (Upgraded)

Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	16.15	ACUITE BBB/ Stable (Upgraded)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	-	ACUITE BBB (Withdrawn)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	20.53	ACUITE BBB/ Stable (Upgraded)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	13.04	ACUITE BBB/ Stable (Upgraded)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	17.66	ACUITE BBB/ Stable (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	277.00	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	332.70	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	360.00	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	378.15	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	375.00	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	155.16	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	132.32	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	551.95	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.32	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	328.84	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	471.78	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.31	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.03	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.72	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	128.67	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	296.93	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	214.90	ACUITE A3+ (Upgraded)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	108.30	ACUITE A3+ (Upgraded)
Proposed Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	615.69	ACUITE A3+ (Upgraded)



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