

Press Release

Jagaran Microfin Private Limited

January 15, 2021

Rating Reaffirmed and Assigned



Total Bank Facilities Rated	Rs.400.00 Cr. (Enhanced from Rs.250.00 Cr.)
Long Term Rating	ACUITE BBB+/ Stable (Reaffirmed and Assigned)

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.250.00 Cr. bank facilities of Jagaran Microfin Private Limited (JMPL). The outlook is '**Stable**'.

Further, Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.150.00 Cr. bank facilities of Jagaran Microfin Private Limited (JMPL). The outlook is '**Stable**'.

The rating continues to factor in the experienced management team, good governance framework and established presence in microfinance lending of over a decade. Rating also factors in company's healthy capitalization metrics marked by CAR which stood at 22.70% as on September 30,2020 as against 19.87% as on March 31,2020. The gearing levels remain moderate and have seen moderate improvement (4.32 times as on September 30,2020 from 4.77 times as on March, 31, 2020.) Acuite understands that improvement in capitalization buffers is aided by healthy internal accruals coupled with moderation in AUM.

These strengths are partially offset by relatively moderate scale of operations and geographical concentration in West Bengal and Bihar (~87% of the total portfolio as on March 31, 2020). Disbursements continue to remain below the optimal levels (~34% for November 2020, ~77% for October 2020 and ~33% for September 2020, based on average monthly disbursements of FY2020). As per management, a put option on NCDs was exercised by an Investor in November 2020, resulting an outflow of Rs.16.5 Cr.

Acuite notes the inherent risks in nature of the microfinance business accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Acuite understands that JMPL granted blanket moratorium to its borrowers from April to August 2020 and did not restructure its loan book. Against this backdrop, weakening in asset quality seen with PAR 30+dpd rising to~31% as on November 30,2020. Nonetheless, collection efficiency of the company has been showing an improving trend (79% for November 2020).

About the Company

Incorporated in1993, Jagaran Microfin Private Limited (JMPL) (erstwhile SBT Consultants Private Limited) is promoted by GTFS Multi Services Limited, holding company with 80% shareholding. The company commenced its operations in microfinance lending in 2010. It commenced its operations in West Bengal to provide microloans to low-income active entrepreneurs, urban and rural producers, traders and small scale farmers and self-employed persons under the joint lending group (JLG) model.

JMPL operates through a network of 134 branches in 34 districts across the states of West Bengal, Bihar, Jharkhand, Orissa and Assam and has AUM of Rs.426 Cr. as on September 30,2020.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of JMPL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence in microfinance sector

JMPL, has an established presence of over a decade in the microfinance sector. It has a board with reputed members who maintain strong oversight on the business. The board of directors of the company comprises of two whole time directors and six independent directors. Its Chairman, Mr. Indrajit Gupta, is ex-Deputy Managing Director of State Bank of India and has been a member of various committees of SEBI with more than 37 years of experience in the banking sector. The other board members include Mr. Pratip Chaudhury, ex-Chairman of State Bank of India and Mr. Sandip Ghose, former Principal Chief General Manager, RBI.

The board is adequately supported by an experienced management team, headed by CEO, Mr. Jaydeep Gosh, who has over two decades of experience in the BFSI segment. He has been with JMPL since its inception and was previously the Zonal Manager (Eastern India) for Agency Development and Distribution with ICICI Prudential Life Insurance and was in charge of retail banking in the Eastern Zone at Axis Bank. The management, along with the board, has instituted good governance and control mechanisms with the separate presence of both audit and inspection departments who submit reports to the board on a regular presence.

The company operates in 134 branches, spread across 34 districts in the five states of West Bengal, Bihar, Jharkhand, Odisha and Assam. JMPL has steadily grown its business volumes over the years and its AUM has increased to Rs.474.94 Cr as on March 31,2020 from Rs.398.54 Cr. as on March 31,2019 . However, subdued disbursements of Rs.15 Cr. in H1FY2021 led to moderation in AUM to Rs.426.37 Cr. as on September 30,2020.

Acuité believes that JMPL will continue to benefit from its well devised governance structures, experienced management and its significant track record in the microfinance sector.

Adequate financial position with diversified funding mix

The company's capital adequacy ratio (CAR) stood at 19.87 percent in FY2020 as against 18.78 percent in FY2019. This improvement is on account of capital infusion of Rs. 9 Cr and Rs. 5 Cr. raised in the form of sub debt. Further, healthy internal accruals coupled with moderation in AUM in H1FY2021 further improved CAR to 22.70% as on September 30,2020. JMPL is promoted by GTFS Multi Services Limited, which has been in insurance brokerage for more around three decades. The company has a diversified funding mix, its funding sources include fourteen banks and eighteen financial institutions. Further, the company has raised Rs.55 Cr in the form of non-convertible debentures from Blue Orchard Microfinance and Japan Asean Women Empowerment Fund in FY19 and FY20. The ability to raise debt by microfinance companies remains challenging due to a very selective and cautious approach adopted by Banks and FIs. However, JMPL has demonstrated access to funding from both banks and large NBFCs.

Acuité believes, going forward, the ability of the company to mobilise additional lower cost funding through debt /sub debt and its ability to deploy the funds profitably will be a key rating monitorable.

Weaknesses

Moderation in asset quality and low disbursement levels

JMPL began its operations in MFI sector in FY2010 with a focus primarily on lending to Joint Liability Group's (JLG) of women. Presently the operations of JMPL are spread across 134 branches in 34 districts (as on September 30, 2020) in West Bengal, Bihar, Jharkhand, Odisha and Assam. Its overall loan portfolio stood at Rs.474.95 Cr as on March 31,2020 which grew from Rs.398.54 Cr as on March 31, 2019, Rs.260.37 Cr as on March 31, 2018 and Rs.148.06 Cr as on March 31, 2017. Acuité notes the inherent risks in nature of the

microfinance business accentuated by the economic impact of COVID-19, rendering the portfolio vulnerable to asset quality risks. Further, Acuité understands that JMPL granted blanket moratorium to its borrowers from April to August 2020 and did not restructure its loan book. Against this backdrop, weakening in asset quality seen with PAR 30+dpd rising to ~31% as on November 30, 2020. JMPL mainly operates in rural and semi urban areas with agriculture and allied activities accounting for ~41% of its AUM as on March 31, 2020. Further, JMPL also introduced a scheme to help borrowers kick-start their business activities by introducing emergency loans up to Rs.20000. This has aided in improvement in collection efficiency (scheduled collections against act from ~2% for April 2020 to ~79% for November 2020 despite blanket moratorium extended to all its borrowers. Nonetheless, Acuité observes that collection efficiency remains below optimal levels.

Disbursements continued to remain below the optimal levels (~34% for November 2020, ~77% for October 2020 and ~33% for September 2020, based on average monthly disbursements of FY2020) after showing As per management, put option on NCDs was exercised by an Investor in November 2020, resulting an outflow of Rs.16.5 Cr.

Acuité believes JMPL's ability to demonstrate growth in loan assets while containing asset quality risks in the light of continuously evolving scenario will be crucial. Additionally, Acuité believes that while some of the impacts on collection efficiency are temporary, a portion of the borrowers could suffer a permanent impairment in their livelihood and this, in turn, could impact the portfolio of lenders like JMPL.

Moderate geographic concentration; susceptible to risks inherent in microfinance segment

JMPL's operations are moderately concentrated with West Bengal accounting for 55 per cent of its total portfolio as on March 31, 2020 followed by Bihar at 32 percent. While the company is gradually expanding into three other states, there is an overall concentration of the lending business in the eastern and the north eastern part of the country. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio.

The MFI lending segment entails providing loans to the lower economic strata of the society. COVID-19 pandemic and consequent lockdowns have resulted in significant logistical challenges, which has impacted the operations of microfinance institutions as a whole, as the activities of microfinance institutions are linked to the movement of men and goods and linked to holding of frequent centre meetings. Gradually, the policies regarding restrictions and implementation of the lockdowns are being handled at the level of state government and local government levels. Hence, the policies of the state and local government bodies will be critical from a business continuity standpoint. This will also have an impact on the trajectory of collection efficiency. Furthermore, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations.

Acuité believes that moderate geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term.

Rating Sensitivity

- Adverse movement in profitability and asset quality
- Adverse movement in Capital adequacy levels
- Increase in geographic concentration
- Changes in regulatory environment governing microfinance activities

Liquidity Position: Adequate

JMPL's unencumbered cash and cash equivalents stood at ~Rs.12 Cr. as on September 30,2020. Its liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). The cash collections of JMPL were impacted by the lockdowns in its area of operations, however, has been improving. Despite blanket moratorium to all of its borrowers, the collection efficiency of JMPL for April to November 2020 range between 0% to ~79% (amount collected as against estimated scheduled collections). While Acuite observes that the collection efficiency of the company has been showing an improving trend, it is still below the optimal levels considering the debt servicing commitments. JMPL itself had availed moratorium from some of its lenders up to the month of August, 2020 and continued repayments to lenders who had not granted a moratorium. Further, the company is in talks with various lenders to raise long term debt.

Acuite believes that the ability to raise long term funding and ability to raise collection efficiency to optimal levels will be critical to maintaining a stable liquidity profile.

Outlook: Stable

Acuite believes that the JMPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment and capital structure. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalisation indicators. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal collection efficiency or significantly higher than expected pressure on asset quality or profitability margins.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	570.36	470.90
Total Income (Net of Interest Expense)	Rs. Cr.	48.44	35.96
PAT	Rs. Cr.	14.86	9.94
Net Worth	Rs. Cr.	98.77	81.34
Return on Average Assets (RoAA)	(%)	2.86	2.62
Return on Average Net Worth (RoNW)	(%)	16.51	12.79
Total Debt/Tangible Net Worth (Gearing)	Times	4.77	4.76
Gross NPAs	(%)	0.50	0.23
Net NPAs	(%)	0.03	0.04

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

CARE, vide its press release dated March 24, 2020, placed the rating of Jagaran Microfin Private Limited under the 'issuer non-cooperating' category.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities:- <https://www.acuite.in/view-rating-criteria-44.htm>

- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
14-Dec-2020	Term Loan	Long Term	7.48	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.51	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.51	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.84	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	4.31	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	0.3	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	4.02	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.36	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.88	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.23	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.93	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.16	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	10.73	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.73	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.71	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	4.44	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	8.75	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	8.92	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	9	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	19.25	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	14.06	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	1.06	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	28.56	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	0.17	ACUITE BBB+ (Withdrawn)

	Term Loan	Long Term	4.17	ACUITE BBB+(Withdrawn)
	Term Loan	Long Term	10.5	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	26.44	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.22	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	2.16	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	9.21	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.96	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	5.62	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.5	ACUITE BBB+ (Withdrawn)
	Proposed Bank Facility	Long Term	56.47	ACUITE BBB+/Stable (Reaffirmed)
26-Mar-20	Term Loan	Long Term	11.25	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	10.93	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	6.82	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.41	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.65	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.9	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.35	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.86	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	5.46	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	17.81	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.34	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.89	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	6.39	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	11.67	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.84	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.3	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.17	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	4.17	ACUITE BBB+/Stable (Reaffirmed)

	Term Loan	Long Term	14.1	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.22	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	3.69	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	2.5	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	10.23	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.82	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.96	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	20	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	96.38	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	15	ACUITE BBB+/Stable (Assigned)
16-Jul-19	Term Loan	Long Term	15	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	15	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	9.55	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	5	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.95	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.24	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.66	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	4.05	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	6.86	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	3	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	5.56	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.68	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	8.06	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	14.17	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	5.5	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	1.21	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	0.67	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	4.17	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	17.7	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	3.33	ACUITE BBB+/Stable (Assigned)

	Term Loan	Long Term	5.39	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	5	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	14.4	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	2.73	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	1.86	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	91.26	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs Cr.)	Ratings/Outlook
Term Loan	02-04-2019	Not Available	01-04-2021	7.48	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-12-2017	Not Available	29-12-2020	1.51	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	21-12-2017	Not Available	20-03-2021	2.51	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-10-2019	Not Available	29-01-2023	4.31	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-03-2019	Not Available	29-03-2021	4.02	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	11-12-2017	Not Available	10-03-2022	1.36	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	09-08-2018	Not Available	08-08-2022	1.88	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	28-02-2019	Not Available	27-02-2023	2.23	ACUITE BBB+/Stable (Reaffirmed)

Term Loan	31-01-2018	Not Available	30-01-2021	0.93	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	31-08-2018	Not Available	30-08-2021	3.16	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-09-2019	Not Available	29-09-2021	10.73	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	30-03-2019	Not Available	29-03-2021	2.73	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	29-01-2019	Not Available	28-07-2021	2.71	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	21-05-2018	Not Available	20-05-2021	4.44	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	31-10-2018	Not Available	30-10-2021	8.75	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	12-02-2020	Not Available	11-02-2022	8.92	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	20-03-2020	Not Available	19-03-2023	9	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	08-07-2020	Not Available	10-01-2023	19.25	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	17-12-2019	Not Available	16-06-2024	14.06	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	27-12-2017	Not Available	26-12-2020	1.06	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	28-08-2020	Not Available	30-04-2021	28.56	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	29-12-2018	Not Available	28-12-2021	10.5	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	29-01-2020	Not Available	28-01-2023	26.44	ACUITE BBB+/Stable (Reaffirmed)

Term Loan	26-09-2017	Not Available	25-12-2020	2.16	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	06-02-2020	Not Available	05-02-2023	9.21	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	03-06-2019	Not Available	02-06-2021	5.62	ACUITE BBB+/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE BBB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	56.47	ACUITE BBB+/Stable (Reaffirmed)

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