

## Press Release

### Shakambhari Ispat & Power Limited

March 02, 2023

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1245.00	ACUITE BBB+   Stable   Reaffirmed	-
Bank Loan Ratings	415.00	-	ACUITE A2   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	1660.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and Short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 1660 Cr bank facilities of Shakambhari Ispat and Power Limited (SIPL). The outlook remains '**Stable**'.

### Rating Rationale

The rating takes into cognizance the strong business risk profile of the group marked by sharp increase in the operating income and healthy profitability arising from better realizations. The rating also factors in its revenue diversity across the steel sector and the comfortable financial risk profile of the company characterized by robust network and comfortable debt coverage indicators. These strengths are, however, partly offset by the working capital intensive nature of operations of the group, cyclical nature of the steel industry and the volatility in commodity prices.

### About the Company

Shakambhari Ispat & Power Limited (SIPL) was incorporated in 2001 as Ma Chhinnamastika Steel & Power Pvt. Ltd. Later in December 2010, the company was acquired by Shakambhari Group and the name of the company was changed to Shakambhari Ispat & Power Limited. SIPL also has an integrated manufacturing facility of TMT bars with captive sponge iron and mild steel billets plants supported by captive power plants. The company sells its TMT bars under the brand name of 'Thermocon'. SIPL's manufacturing unit is located in Purulia, West Bengal. The company has an installed capacity of 543,000 MTPA for sponge iron, 499,000 MTPA for billet, 399,000 MTPA for rolled product, 55,500 MTPA for ferro alloy and 52 MW of captive power plant.

### About the Group

SPS Rolling Mills Limited (SPS) was established in 1990 by Mr. Bipin Vohra. The company is an integrated steel manufacturing unit with facilities of sponge iron, billets and rolling mill. The manufacturing unit of the company is located in Durgapur, West Bengal. The company sells its TMT bars under the brand name of 'Elegant.' The company was acquired by the Shakambhari group from NCLT in April 2019. SPS's manufacturing unit is located in Durgapur, West Bengal. The company has an installed capacity of 165,000 MTPA for sponge iron, 198,000 MTPA for billet and 198,000 MTPA for rolled product.

Eloquent Steel Pvt Ltd(ESPL) was acquired by Shakambhari group in FY18 through auction from Official Liquidator of Honorable High Court, Kolkata. Currently the company is engaged in manufacturing of billet and ferro alloys at its manufacturing unit located in Asansol, West Bengal. The installed capacity for billet unit is 46,200 MTPA and ferro alloys is 43,250 MTPA. Bravo Sponge Iron Private Limited(BSPL) was incorporated in 1997 by Jamshedpur-based Bhalotia group. BSPL's plant was shut down during April 2014 to May 2015 as the plant was incurring losses. In June 2015, Shakambhari group took over the control of the company. The company has a manufacturing unit in Purulia West Bengal with installed capacity of 76800 MTPA for billet, 120,000 MTPA of sponge iron and 850,000 MTPA of pellet unit. The company has a 10 MW of captive power plant.

### **Analytical Approach**

Acuité has taken a consolidated view of Shakambhari Ispat & Power Limited, SPS Steel Rolling Mills Limited, Eloquent Steel Pvt Ltd and Bravo Sponge Iron Pvt Ltd as all the entities are in the same line of business, share common management and has significant operational linkage between them. The group herein is referred to as Shakambhari Group.

**Extent of consolidation:** Full.

### **Key Rating Drivers**

#### **Strengths**

- **Long operational track record and experienced management**

The Shakambhari group has a long track record of over two decades in the iron and steel industry. Shakambhari Ispat & Power Limited was incorporated in October 2001 in the name of Ma Chhinnamastika Steel & Power Pvt. Ltd. The previous promoters had sold the company to Shakambhari group in December 2001. Thereafter in 2010, the name of the company was changed to its current name. Further, in FY2020, the group had acquired SPS Rolling Mills Limited from NCLT which strengthened their business profile. Currently the group is selling TMT Bars in the eastern and northern parts of India such as West Bengal, Jharkhand, UP, Bihar Assam and Punjab through its extensive distribution channels which includes 12000 dealers and 3200 distributors. The group has two established brands 'Thermocon' and 'Elegant' which have a strong brand recall in West Bengal and its neighbouring states. The group caters to both domestic and overseas markets such as Nepal, Japan, South Korea among others. Acuité believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. Currently the group is headed by Mr. Deepak Agrawal who has an experience of more than two decades in the iron and steel industry. Acuité derives comfort from the long experience of the promoters.

- **Strong business risk profile**

The strong business risk profile of the group is supported by the integrated nature of operations of the group; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. The diversity in revenue streams of the group also augurs well. The aggregate installed capacity of the Shakambhari Group is 705,000 MT of sponge iron, 820,000 MT of billet, 98750 MTPA of ferro alloys, 597,000 MT of rolled steel products and 62 MW of captive power plant.

Also, the group had registered healthy revenue growth as reflected from its revenue of Rs 4086.10 Cr in FY2022 as against Rs. 2685.19 Cr in FY2021 and Rs. 1974.46 Cr in FY2020. The growth is driven by substantial rise in average realization of TMT bar and ferro alloy because of strong demand from end user industries such as construction, real estate etc. In addition to this, the group had enhanced its existing capacities. The scale of operation is expected to improve over the medium term backed by capacity addition.

Moreover, the group has a locational advantage as the plants are located in the industrial area of West Bengal, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

The group has reported healthy profit margins both at the operating and net level historically. The operating margin of the group stood at 16.11 per cent in FY22 as compared to 12.90 per cent in FY21. The profit after tax (PAT) margins of the group stood at 8.19 per cent in FY22 as against 4.08 per cent in the preceding year. The improvement is driven by exceptional rise in realization of ferro alloys because of high demand from both domestic and overseas markets. However, the profit margin is likely to witness moderation during FY23 due to inventory losses in Q1HFY23 because of decline in realization of steel products. Nevertheless, Acuite expects the profitability margin of the group is expected to remain at comfortable level over the medium term backed by integrated operation.

#### • **Healthy financial risk profile**

The group's healthy financial risk profile is marked by strong network, moderate gearing and healthy debt protection metrics. The tangible net worth of the group increased to Rs.1511.72 Cr as on March 31, 2022 from Rs.1129.48 Cr as on March 31, 2021 due to accretion of reserves. Acuite has considered unsecured loans to the tune of Rs.0.28 Cr as on March 31, 2022 as part of network as these loans are subordinated to bank debt. Gearing of the group stood moderate at 1.54 times as on March 31, 2022 as against 1.45 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.96 times as on March 31, 2022 as against 1.81 times as on March 31, 2021. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio at 4.67 times as on March 31, 2022 and Debt Service Coverage Ratio at 2.19 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.18 times as on March 31, 2022.

Acuite believes that going forward the financial risk profile of the group will remain healthy even though they might witness some moderation in leverage indicators in medium term due to the ongoing capex plans.

#### **Weaknesses**

##### • **Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 200 days in 31st March 2022 as compared to 196 days in 31st March 2021. The high level of GCA days is on account of high inventory levels during the same period. The inventory holding stood at 136 days in 31st March 2022 as compared to 111 days as on 31st March 2021. However, the debtor period stood comfortable at 31 days on 31st March 2022 as compared to 51 days on 31st March 2021. Acuite believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and high inventory levels over the medium term.

##### • **Intense competition and inherent cyclical nature of the steel industry**

The downstream steel industry remains heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

#### **ESG Factors Relevant for Rating**

Manufacture of metals has a substantial environmental impact. The production of basic metals is extremely power-intensive. Steel is still produced with blast furnaces, releasing large amounts of carbon dioxide, nitrogen oxide, and particulate matters into the air. On the social front, occupation and workforce health & safety management are of primary importance to this industry given the dangerous nature of operations. Furthermore, factors such as ethical business practices, management compensation and board administration hold primary importance within this industry.

#### **Rating Sensitivities**

- Sustainability in revenue growth and improvement in margins

**Material covenants**

None

**Liquidity Position: Adequate**

The group's liquidity is adequate marked by steady net cash accruals of Rs.421.38 Cr as on March 31, 2022 as against long term debt repayment of Rs.115.02 Cr over the same period. The fund based limit remains utilised at 88 per cent over the nine months ended December, 2022. The current ratio stood comfortable at 1.46 times as on March 31, 2022 as compared to 1.56 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.9.23 Cr as on March 31, 2022 as compared to Rs.12.53 Cr as on March 31, 2021. However, the working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 200 days in 31st March 2022 as compared to 196 days in 31st March 2021. Acuite believes that going forward the group will maintain adequate liquidity position due to steady accruals.

**Outlook: Stable**

Acuite believes that Shakambhari group will benefit over the medium term from the sound business risk profile and comfortable financial risk profile. The outlook may be revised to 'Positive' if Shakambhari group is able to strengthen the financial risk profile along with sustainability in the profitability margin. Conversely, the outlook may be revised to 'Negative' if the group witnessed a significant deterioration in financial risk profile or liquidity position due to any significant time or cost overruns in their planned or unplanned capital expenditure.

**Other Factors affecting Rating**

Not Applicable

**Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	4086.10	2685.19
PAT	Rs. Cr.	334.45	109.50
PAT Margin	(%)	8.19	4.08
Total Debt/Tangible Net Worth	Times	1.54	1.45
PBDIT/Interest	Times	4.67	2.51

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

Not Applicable

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- 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>

**Note on complexity levels of the rated instrument**

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Sep 2022	Letter of Credit	Short Term	15.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE BBB+   Stable (Reaffirmed)
	Letter of Credit	Short Term	47.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE BBB+   Stable (Assigned)
	Cash Credit	Long Term	138.00	ACUITE BBB+   Stable (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A2 (Assigned)
	Proposed Bank Guarantee	Short Term	30.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	58.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	75.00	ACUITE BBB+   Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE BBB+   Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB+   Stable (Reaffirmed)
	Term Loan	Long Term	35.00	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	74.12	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	37.73	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB+   Stable (Reaffirmed)
	Term Loan	Long Term	78.34	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	46.00	ACUITE BBB+   Stable (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2 (Assigned)
	Term Loan	Long Term	30.00	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	59.17	ACUITE BBB+   Stable (Reaffirmed)



	Proposed Cash Credit	Long Term	151.69	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	35.00	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	48.95	ACUITE BBB+   Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	100.00	ACUITE A2 (Assigned)
	Term Loan	Long Term	59.57	ACUITE BBB+   Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	56.30	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	39.13	ACUITE BBB+   Stable (Reaffirmed)
05 Oct 2021	Letter of Credit	Short Term	18.00	ACUITE A2 (Upgraded from ACUITE A3)
	Term Loan	Long Term	58.42	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	64.80	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	64.36	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Letter of Credit	Short Term	40.00	ACUITE A2 (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	24.00	ACUITE A2 (Upgraded from ACUITE A3)
	Cash Credit	Long Term	84.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Letter of Credit	Short Term	43.00	ACUITE A2 (Upgraded from ACUITE A3)
	Cash Credit	Long Term	51.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	36.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Letter of Credit	Short Term	10.00	ACUITE A2 (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3)
	Cash Credit	Long Term	114.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	45.75	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Proposed Cash Credit	Long Term	0.42	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	63.98	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	42.91	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	30.00	ACUITE A2 (Upgraded from ACUITE A3)
	Cash Credit	Long Term	42.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)

	Cash Credit	Long Term	20.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	85.93	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
05 Aug 2020	Cash Credit	Long Term	262.00	ACUITE BBB-   Stable (Reaffirmed)
	Letter of Credit	Short Term	105.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	493.57	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	35.00	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	38.00	ACUITE BBB-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Reaffirmed)
13 May 2020	Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)
	Proposed Letter of Credit	Short Term	35.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	493.57	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	262.00	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	105.00	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	38.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2   Reaffirmed
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2   Reaffirmed
UCO Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	49.00	ACUITE A2   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB+   Stable   Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB+   Stable   Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	110.00	ACUITE BBB+   Stable   Reaffirmed
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	177.00	ACUITE BBB+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+   Stable   Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	46.00	ACUITE BBB+   Stable   Reaffirmed
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB+   Stable   Reaffirmed
Bandhan Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB+   Stable   Reaffirmed
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	68.00	ACUITE A2   Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A2   Reaffirmed
Indian	Not		Not	Not	Not			ACUITE A2



Bank	Applicable	Letter of Credit	Applicable	Applicable	Applicable	Simple	20.00	 Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2   Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A2   Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	70.00	ACUITE A2   Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2   Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE A2   Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	116.52	ACUITE BBB+   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	67.00	ACUITE A2   Reaffirmed
State Bank of India	Not Applicable	Term Loan	30 May 2021	9.60	29 Dec 2029	Simple	35.71	ACUITE BBB+   Stable   Reaffirmed
Bandhan Bank	Not Applicable	Term Loan	01 Apr 2022	8.90	01 Jan 2029	Simple	49.30	ACUITE BBB+   Stable   Reaffirmed
Canara Bank	Not Applicable	Term Loan	01 Jan 2023	11.80	30 Sep 2031	Simple	30.00	ACUITE BBB+   Stable   Reaffirmed
UCO Bank	Not Applicable	Term Loan	31 Mar 2017	10.35	30 Mar 2030	Simple	83.41	ACUITE BBB+   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	31 Mar 2020	10.35	31 Dec 2029	Simple	122.45	ACUITE BBB+   Stable   Reaffirmed
Union Bank of India	Not Applicable	Term Loan	31 Mar 2017	10.5	30 Mar 2030	Simple	120.46	ACUITE BBB+   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	31 Mar 2017	10.35	30 Mar 2030	Simple	88.15	ACUITE BBB+   Stable   Reaffirmed

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### About Acuité Ratings & Research

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