September 30, 2021

Indiabulls Housing Finance Limited: Rating reaffirmed; outlook revised to Stable and rating withdrawn for matured instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	8,875.00	8,875.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative
NCD Programme	2,238.00	-	[ICRA]AA reaffirmed and outlook revised to Stable from Negative; rating withdrawn
Subordinated Debt Programme	1,500.00	1,500.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative
Total	**12,613.00**	**10,375.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating of Indiabulls Housing Finance Limited (IBHFL) factors in the alleviating asset quality concerns for the company. While reaffirming the rating on March 26, 2021, ICRA had maintained a Negative outlook to reflect the expectation that the asset quality pressures due to the Covid-19 pandemic would persist, which would then impact IBHFL's profitability in the absence of balance sheet growth. However, the company was able to limit slippages and ensure healthy collections, which helped contain the reported gross non-performing assets (GNPA) at 2.86% of the assets under management (AUM) as on June 30, 2021 compared to 2.66% as on March 31, 2021 and 1.84% as on March 31, 2020 (increase in GNPAs was partly due to the base effect of the declining AUM).

The rating reaffirmation factors in IBHFL's established franchise in the domestic mortgage finance industry with a sizeable retail portfolio and adequate infrastructure, and its healthy financial profile with adequate capitalisation and liquidity. The capital raise (~Rs. 683 crore through qualified institutional placement, QIP) and the sale of non-core investments (~Rs. 1,988 crore from stake sale in OakNorth Holdings) over the past year helped IBHFL maintain healthy capital adequacy. In H1 FY2022, IBHFL sold an additional stake in OakNorth Holdings for ~Rs. 278 crore. Despite the aggressive write-offs and the conservative provisioning being carried on the balance sheet (5.5% of the loan book as on June 30, 2021), IBHFL's capitalisation profile is comfortable.

Moreover, the provisions being carried at present are expected to sufficiently cushion any asset quality deterioration over the near term, thereby cushioning IBHFL's near-term profitability from any asset-side shock. The rating also favourably factors in the company's endeavours to strengthen its governance structure, as evidenced by the recent additions/changes to the board composition and profile.

The rating, however, is constrained by the low fresh disbursements, the continued challenges in fund-raising at competitive prices and the subdued real estate market. While IBHFL has recalibrated its business model with an increasing shift towards the asset-light model, the business ramp-up under the revised strategy has been slower than expected. However, the co-lending agreements with banks and other housing finance companies (HFCs) are expected to help in the gradual scale-up of the AUM over the next two years.

While funding challenges persist to some extent, given the risk averseness of domestic investors towards wholesale-oriented non-banks, IBHFL has been able to tie up long-term debt of Rs. 3,450 crore from banks, Rs. 792 crore from retail NCD issuance, ~Rs. 1,200 crore from foreign currency convertible bond (FCCB) issuance and ~Rs. 2,600 crore from loan sell-downs in year-to-

date (YTD) FY2022. This, coupled with healthy collections from the portfolio, has helped the company maintain strong liquidity and manage its asset-liability profile.

The rating is also constrained by the weak asset quality of the commercial credit (real estate developer loan) segment, an asset class that faced increased vulnerability in recent quarters due to the pandemic. ICRA notes the sizeable reduction in the commercial credit segment over the past two years and the adequate asset quality of the retail segment (includes housing loans and loans against property (LAP); accounted for ~86% of the AUM as on June 30, 2021).

The real estate sector has been facing a prolonged slowdown due to subdued sales and lack of funding access. The spread of the pandemic and the resulting nationwide lockdown further impacted the sector. While the pressure on the developers during the lockdown was mitigated due to the moratorium offered for their loan instalments under the Covid-19-related regulatory package announced by the Reserve Bank of India (RBI), a sustained pick-up in sales across geographies is key for the developers over the medium term. Slippages in the real estate segment resulted in a moderation in IBHFL's asset quality, though the healthy performance of the retail segment offset the impact on an aggregate basis to a large extent.

The company has also adopted accelerated write-offs for certain stressed assets. In addition, it has extended relief from the pandemic-induced stress to a segment of its borrowers (less than 1% of the AUM as on June 30, 2021) by way of reschedulement under the National Housing Bank (NHB) guidelines. The corresponding increase in credit costs, coupled with the compression in the net interest margin (NIM; due to the decline in the loan book and increase in the cost of funds), resulted in a moderation in IBHFL's earnings profile.

Going forward, the company's ability to ensure healthy fund mobilisation at competitive rates, on a sustained basis, would remain critical. Furthermore, its ability to achieve meaningful scale-up under the new business model, while maintaining healthy asset quality and profitability, would be a credit-sensitive factor.

ICRA has also withdrawn the rating assigned to the Rs. 2,238.00-crore NCD programme of IBHFL as there is no amount outstanding against the rated instrument. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established track record in domestic mortgage finance industry – IBHFL has a demonstrated track record in the housing finance business and a significant market position with an overall AUM of Rs. 79,213 crore as on June 30, 2021. The same is, however, ~63% below the peak AUM of Rs. 1,28,908 crore reported on September 30, 2018. After posting a strong growth at a compound annual growth rate (CAGR) of ~36% between March 31, 2014 and September 30, 2018, IBHFL reported a steady decline in its housing loan AUM over the past 11 quarters. As on June 30, 2021, the housing loan AUM stood at ~Rs. 54,500 crore, ~31% lower compared to ~Rs. 78,600 crore as on September 30, 2018. This was because of the subdued disbursements starting Q3 FY2019 with the onset of the liquidity crisis for the sector.

Despite the decline in the housing loan AUM, IBHFL remains one of the top HFCs in the country. The share of the housing loan AUM in the company's AUM increased to 69% as of June 30, 2021 from 61% as on September 30, 2018. This is due to the sharp ~57% decline in the commercial credit AUM during this period. Going forward, IBHFL's loan book is expected to remain range-bound as the disbursements are unlikely to exceed the collections over the near term. The management expects disbursements to pick up in H2 FY2022.

Adequate capitalisation levels – IBHFL remains well capitalised with a consolidated tangible net worth of Rs. 15,577 crore and a capital adequacy ratio (capital to risk-weighted assets ratio; CRAR) of 30.9% (nil risk weightage to mutual fund investments) with Tier I capital of 24.3% as on June 30, 2021 (30.7% with Tier I of 24.0% as on March 31, 2021 and 27.1% with Tier I of 20.3% as on March 31, 2020), providing adequate cushion for growth while maintaining the regulatory capital adequacy requirement (15%). IBHFL's capitalisation profile is comfortable despite the aggressive write-offs in FY2021 and the conservative provisioning being carried on the balance sheet (5.5% of the loan book as on June 30, 2021).

The improvement in the CRAR in FY2021 was supported by the fresh equity raise of ~Rs. 683 crore and the sale of stake in OakNorth Holdings for ~Rs. 1,988 crore. In H1 FY2022, IBHFL sold a further stake in OakNorth Holdings for ~Rs. 278 crore. The company's gearing was 3.88 times as on June 30, 2021 compared to 4.06 times as on March 31, 2021 and 4.91 times as on March 31, 2020. Adjusting the cash and bank balances and investments, the net gearing was much lower at 3.09 times as on June 30, 2021 compared to 3.30 times as on March 31, 2021 (4.04 times as on March 31, 2020).

Credit challenges

Weakening asset quality indicators – IBHFL's reported GNPA increased to 2.66% as on March 31, 2021 from 1.84% as on March 31, 2020 due to the impact of the pandemic on the borrowers across the segments. The company was able to limit slippages in Q1 FY2022 and ensure healthy collections, which helped contain the reported GNPA at 2.86%[1] as on June 30, 2021. As on June 30, 2021, more than 50% of the GNPA was contributed by the commercial credit segment, which accounts for ~16% of the loan book. Non-housing loans (LAP and commercial credit) formed ~31% of the company's AUM as on June 30, 2021.

The commercial credit book includes lease rental discounting (LRD) loans to builders and construction finance. Given the large ticket size and the high inherent risks associated with these exposures, the commercial credit book remains exposed to concentration risks. The increased challenges for the real estate sector due to the pandemic-related lockdown in the recent past have heightened the portfolio vulnerability. ICRA notes that a sustained pick-up in real estate sales is critical for a sustained improvement in the asset quality. ICRA takes comfort from IBHFL's adequate systems and processes to manage this business and its demonstrated ability to recover dues from the borrowers.

Continued challenges in resource mobilisation from diverse sources; risk averseness of investors persists – The operating environment has been challenging over the past two and a half years, given the prolonged liquidity squeeze and the risk averseness of investors towards wholesale-oriented non-banking financial companies (NBFCs) and HFCs. This led to challenges in fund raising. Instances of litigation and allegations against the company had further heightened the risk-averse sentiments of lenders/investors in FY2020, thereby impacting its financial flexibility. While the legal processes are ongoing, there has not been any material adverse observations by any of the inspecting/auditing agencies over the past year.

IBHFL raised Rs. 2,671-crore equity (including ~Rs. 683-crore fresh equity through a QIP and ~Rs. 1,988 crore through the sale of its stake in OakNorth Holdings) in FY2021 to improve its financial flexibility. In YTD FY2022, the company tied up long-term debt of Rs. 3,450 crore from banks, Rs. 792 crore from retail NCD issuance, ~Rs. 1,200 crore from FCCB issuance and ~Rs. 2,600 crore from loan sell-downs. This, coupled with healthy collections from the portfolio, helped the company maintain strong liquidity and manage its asset-liability profile.

ICRA, however, notes that the risk-averse sentiment of domestic investors persists towards non-banks with developer loan exposure. ICRA will also monitor the developments around the progress on the legal cases against the company. ICRA favourably notes IBHFL's efforts to strengthen its governance structure as evidenced by the recent additions/changes to the board composition and profile. Going forward, the company's ability to ensure healthy fund mobilisation at competitive rates, on a sustained basis, would remain critical.

The resource profile, as on June 30, 2021, consisted of debentures and securities of ~40% (~38% as on June 30, 2020), bank loans of ~31% (~34%), sell-downs of ~24% (~24%) and external commercial borrowings of ~5% (~4%).

Moderation in profitability impacted by higher credit costs and decline in loan book and lending spreads; slower-than-expected ramp-up of business under revised strategy – With the company resorting to asset securitisation/sell-down as a source of liquidity in H2 FY2019, the on-balance sheet loan book declined sharply at the end of FY2019, thereby impacting the earnings profile starting FY2020. The accelerated refinancing of developer loans (commercial credit AUM, as on March 31, 2021, nearly halved since March 31, 2019) also contributed to the decline in the loan book and the overall portfolio yield. The

[1] *IBHFL reported an increase in Stage 2 assets to ~33% of the loan book as on June 30, 2021 and March 31, 2021 (~31% as on March 31, 2020 and ~6% as on March 31, 2019)*

loan book continued to decline in FY2021 with the slowdown in disbursements due to the pandemic. This, coupled with the higher cost of funds and cost of negative carry, led to a moderation in the NIM. While the company took measures to control its operating expenses, higher provision expenses (including provisions for the estimated impact of the pandemic on the business; part of it was, however, taken against the net worth and part against a one-time gain in FY2020) further impacted the profitability.

IBHFL reported a profit after tax (PAT) of Rs. 1,202 crore (return on assets (RoA) of 1.19% and return on equity (RoE) of 7.62%) in FY2021 compared to Rs. 2,200 crore (RoA of 1.90% and RoE of 13.80%) in FY2020. It reported a PAT of Rs. 282 crore with RoA of 1.14% and RoE of 7.26% in Q1 FY2022. ICRA expects IBHFL's profitability to remain subdued (RoA in the range of 1.0-1.5%) over the near term, given the existing challenges in terms of growth and credit costs. ICRA notes that the company is in the process of transitioning to a new business model with a focus on retail loans originated through a mix of channels such as co-origination and origination for sell-down. The company's ability to realise these plans and achieve material scale and profitability would remain critical from a credit perspective.

Liquidity position: Strong

With unencumbered on-book liquidity of Rs. 11,419 crore as on June 30, 2021, IBHFL's liquidity profile remains strong. The total available liquidity of Rs. 17,491 crore (including undrawn and available sanctioned lines) almost covers the next 12 months' debt repayments. Based on the repayment schedule provided in the micro asset-liability management (ALM) details, as a part of its Q1 FY2022 earnings update, IBHFL's debt maturity over the next one year (July 2021 to June 2022) stands at Rs. 17,969 crore.

Rating sensitivities

Positive factors – The rating may be upgraded in case of a significant and sustained pickup in disbursals supported by an improvement in resource mobilisation with access to well-diversified sources, while maintaining a healthy asset quality (GNPA including 1-year write-offs of less than 3%) along with an improvement in the earnings profile.

Negative factors – ICRA could downgrade the rating in case the company fails to scale up its disbursals (under the planned asset-light model) over the medium term or in case of a material deterioration in its asset quality, affecting the financial profile. Any sustained weakness in resource mobilisation from diversified sources, which would restrict IBHFL's ability to lend or would lead to a deterioration in its liquidity profile, could also put pressure on the rating.

The company also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating-linked covenants. Upon failure to meet the covenants, if IBHFL is not able to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating could face pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies Rating Approach - Consolidation ICRA Policy on Withdrawal of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	To arrive at the rating, ICRA has considered the consolidated financial profile of IBHFL. As on June 30, 2021, IBHFL had 13 subsidiaries. Details of these companies are provided in Annexure-2.

About the company

Incorporated in 2005, IBHFL is a housing finance company registered with National Housing Bank. In March 2013, the parent company, Indiabulls Financial Services Limited, merged with IBHFL. The company provides mortgage loans, LRD and construction finance with a prime focus on the mortgage and home finance business. As on December 31, 2020, IBHFL's AUM was Rs. 86,566 crore.

On a consolidated basis, IBHFL reported a net profit of Rs. 1,202 crore on total income[2] of Rs. 9,962 crore in FY2021 compared to a net profit of Rs. 2,200 crore on total income of Rs. 13,005 crore in FY2020. In Q1 FY2022, the company reported a net profit of Rs. 282 crore on total income of Rs. 2,317 crore. Its tangible net worth was Rs. 15,577 crore while the CRAR was 30.9% as on June 30, 2021.

Key financial indicators of IBHFL

IBHFL (consolidated)	FY2020	FY2021	Q1 FY2022*
Net interest income[1] (Rs. crore)	3,037	2,783	741
Total income[2] (Rs. crore)	13,005	9,962	2,317
Profit after tax (Rs. crore)	2,200	1,202	282
Net worth (including non-controlling interest; Rs crore)[3]	15,480	16,076	15,577
AUM (Rs. crore)	93,021	80,741	79,213
Loan book (Rs. crore)	73,064	66,047	65,438
Total assets[4] (Rs. crore)	1,06,551	95,635	90,713
Return on assets (%)	1.90%	1.19%	1.14%
Return on net worth (%)	13.80%	7.62%	7.26%
Gross NPA (%)	1.80%	2.66%	2.86%
Net NPA (%)	1.20%	1.59%	1.55%
Net NPA/Net worth (%)	7.50%	7.99%	7.85%
Gross gearing[5] (times)	4.91	4.06	3.88
Tier I capital (%)	20.30%	24.00%	24.30%
CRAR (%)	27.10%	30.70%	30.90%

***Source**: Company, ICRA Research; All ratios as per ICRA calculations*

** Based on unaudited interim condensed financial statements*

[1] Calculated as the sum of interest income from financing activities and fixed deposits, and other operating charges less interest expenses

[2] Excludes securitisation income and net of gain/loss on fair value changes; includes share in profit of associates

[3] Net of goodwill on consolidation

[4] Net of goodwill on consolidation and gross of provisions

[5] Calculated excluding temporary book overdraft, interest accrued but not due, securitisation liability and lease liability from the total debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)			Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 22, 2021 (Rs. crore)	Current Rating	Date & Rating in FY2021			Date & Rating in FY2020			Date & Rating in FY2019
					Sep 30, 2021	Mar 26, 2021	Apr 27, 2020	Apr 6, 2020	Feb 20, 2020	Oct 11, 2019	Aug 30, 2019	Apr 11, 2019	Sep 25, 2018 Sep 19, 2018 May 30, 2018
1	NCD Programme	Long Term	8,875.00	8,875.00	**[ICRA]AA (Stable)**	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ &	[ICRA]AAA &	[ICRA]AAA (Stable)
2	NCD Programme	Long Term	2,238.00	-	**[ICRA]AA (Stable); withdrawn**	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ &	[ICRA]AAA &	[ICRA]AAA (Stable)
3	Subordinated Debt Programme	Long Term	1,500.00	1,500.00	**[ICRA]AA (Stable)**	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ &	[ICRA]AAA &	[ICRA]AAA (Stable)
4	Long-term Bank Facilities (Unallocated)	Long Term	-	-	-	-	[ICRA]AA (Negative); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ &	[ICRA]AAA &	[ICRA]AAA (Stable)
5	Commercial Paper Programme	Short Term	-	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

& Rating on Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD Programme	Simple
Subordinated Debt Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE148I07HV0	NCD	25-Jul-17	7.82%	25-Jul-22	100	[ICRA]AA (Stable)
INE148I07HX6	NCD	8-Sep-17	8.03%	8-Sep-27	1,450	[ICRA]AA (Stable)
INE148I07IC8	NCD	7-Nov-17	7.77%	7-Nov-22	290	[ICRA]AA (Stable)
INE148I07IM7	NCD	29-Dec-17	8.00%	22-Oct-21	250	[ICRA]AA (Stable)
INE148I07IN5	NCD	29-Dec-17	8.12%	29-Dec-22	1,000	[ICRA]AA (Stable)
INE148I07IP0	NCD	24-Jan-18	8.12%	24-Jan-25	225	[ICRA]AA (Stable)
INE148I07IQ8	NCD	22-Feb-18	8.43%	22-Feb-28	3,060	[ICRA]AA (Stable)
INE148I07IR6	NCD	23-Feb-18	8.43%	23-Feb-28	25	[ICRA]AA (Stable)
INE148I07IY2	NCD	30-May-18	8.85%	30-May-23	100	[ICRA]AA (Stable)
INE148I07IZ9	NCD	5-Jun-18	8.85%	5-Jun-23	100	[ICRA]AA (Stable)
INE148I07JE2	NCD	30-Jul-18	8.80%	28-Jul-23	250	[ICRA]AA (Stable)
INE148I07JF9	NCD	6-Aug-18	8.90%	4-Aug-28	1,025	[ICRA]AA (Stable)
INE148I07JK9	NCD	22-Nov-18	9.30%	22-Nov-28	1,000	[ICRA]AA (Stable)
INE148I07IH7	NCD	27-Dec-17	8.03%	6-Apr-21	275	[ICRA]AA (Stable); withdrawn
INE148I07IK1	NCD	28-Dec-17	0.00%	8-Apr-21	375	[ICRA]AA (Stable); withdrawn
INE148I07IL9	NCD	29-Dec-17	8.00%	9-Jul-21	340	[ICRA]AA (Stable); withdrawn
INE148I07IS4	NCD	19-Mar-18	8.40%	19-Mar-21	600	[ICRA]AA (Stable); withdrawn
INE148I07IT2	NCD	19-Mar-18	8.39%	15-Jun-21	348	[ICRA]AA (Stable); withdrawn
INE148I07IV8	NCD	23-Mar-18	8.40%	22-Jun-21	300	[ICRA]AA (Stable); withdrawn
INE148I08306	Subordinated Debt	27-Mar-18	8.80%	27-Mar-28	1,500	[ICRA]AA (Stable)

***Source**: IBHFL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership/ Relationship with Rated Entity as on June 30, 2021	Consolidation Approach
Indiabulls Commercial Credit Limited	100%	Full Consolidation
Indiabulls Collection Agency Limited	100%	Full Consolidation
Ibulls Sales Limited	100%	Full Consolidation
Indiabulls Insurance Advisors Limited	100%	Full Consolidation
Indiabulls Capital Services Limited	100%	Full Consolidation
Nilgiri Financial Consultants Limited	100%	Full Consolidation
Indiabulls Advisory Services Limited	100%	Full Consolidation
Indiabulls Asset Holding Company Limited	100%	Full Consolidation
Indiabulls Asset Management Company Limited	100%	Full Consolidation
Indiabulls Trustee Company Limited	100%	Full Consolidation
Indiabulls Holdings Limited	100%	Full Consolidation
Indiabulls Venture Capital Management Company Limited	100%	Full Consolidation
Indiabulls Asset Management (Mauritius)	100%	Full Consolidation

***Source**: IBHFL*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3462
samriddhi.chowdhary@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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