May 01, 2020

Housing and Urban Development Corporation Ltd.: [ICRA]AAA(Stable) assigned

Summary of rating action

Instrument*^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowing Programme FY2021	-	24,000.00	[ICRA]AAA (Stable); Assigned
Long-term Borrowing Programme FY2021	4,000.00	4,000.00	[ICRA]AAA (Stable); Outstanding
Long-term Borrowing Programme FY2020	7,695.00	7,695.00	[ICRA]AAA (Stable); Outstanding
Long-term Borrowing Programme FY2020	22,305.00	-	[ICRA]AAA (Stable); Withdrawn
Long-term Borrowing Programmes up to FY2019	27,710.00	27,710.00	[ICRA]AAA (Stable); Outstanding
Long-term Borrowing Programmes up to FY2019	3,408.76	-	[ICRA]AAA (Stable); Withdrawn
Commercial Paper	10,000.00	10,000.00	[ICRA]A1+; Outstanding
Fund Based – Term Loan	5,650.00	150.00	[ICRA]AAA (Stable); Outstanding
Fund Based – Cash Credit	3,900.00	4,100.00	[ICRA]AAA (Stable); Outstanding
Non-fund Based	1,112.56	2,050.06	[ICRA]AAA (Stable); Outstanding
Short-term Loans	4,540.00	4,439.94	[ICRA]A1+; Outstanding
Unallocated	9,797.44	14,260.00	[ICRA]AAA (Stable)/ [ICRA]A1+; Outstanding
Fixed Deposit Programme~	-	-	MAAA (Stable); Outstanding
Total	100,118.8	98,405.00	

**Instrument details are provided in Annexure-1; ^Details of outstanding amounts are provided on page 6; ~Rs. 2,000-crore programme with Rs. 174.92 crore outstanding as on December 31, 2019*

Rationale

The ratings for Housing and Urban Development Corporation Ltd.'s (HUDCO) borrowing programmes continue to derive significant strength from its sovereign ownership (89.81% of equity held by the Government of India (GoI) as of March 31, 2020) and its important role as a nodal agency for the implementation of Government policy in the high-priority sectors of social housing and urban infrastructure (UI). The ratings also draw comfort from the relatively low risk profile of HUDCO's portfolio, given the focus on Government-sponsored UI and social housing projects. The credit risks in these exposures are relatively low, given the guarantees and/or budgetary provisions from Central/state governments for debt servicing by the concerned entities. The ratings also factor in the company's comfortable capitalisation level, its diversified borrowing profile and good financial flexibility, given its sovereign ownership, which supports its liquidity profile even though the relatively less risky exposure results in modest earnings.

ICRA notes that HUDCO has restricted its fresh exposures to the private sector since 2013. Legacy private sector loans accounted for only ~4% of the total loan book as of December 31, 2019. While HUDCO's credit risk in the public-sector loan book is mitigated by the presence of government guarantees and/or budgetary allocations for debt repayments, the weak financial profile of many of the state governments remains a risk, especially given the concentrated presence of HUDCO in states like Telangana (TEL), Uttar Pradesh (UP) and Andhra Pradesh (AP). In this regard, ICRA has taken cognizance of the spurt in HUDCO's stage 3 assets in Q3 FY2020 due to two public sector exposures aggregating ~Rs. 869 crore (including one backed by a state government guarantee). However, it is noted that the larger exposure of Rs. 726 crore was subsequently regularised in January 2020.

While HUDCO does not keep sizeable on-balance sheet liquidity, it maintains sufficient unutilised bank lines (Rs. 6,140 crore as on March 30, 2020) to plug any mismatches in the near term. Moreover, the healthy financial flexibility, supported by the sovereign ownership and the ability to raise funds at short notice, provides comfort. ICRA notes that the near-term gaps in the asset liability maturity (ALM) profile could widen if the entity permits the underlying borrowers to defer repayments by three months, in line with the RBI's latest directions. However, it is noted that HUDCO's loan assets have quarterly repayment cycles with the majority aligned to the February-May-August-November cycle. Hence, the company had already collected most of the scheduled dues for Q4 FY2020, prior to the imposition of the lockdown in March 2020. Further, the next repayment date for a large proportion of the loan book coincides with the end of the currently proposed moratorium period.

Going forward, the company's ability to keep the asset quality and credit costs under control would remain a key rating monitorable. A weakening of the asset quality and a resultant deterioration in solvency (Net Stage III/Tier I Capital), to a level above 40% on a sustained basis, will be a negative for the credit profile (HUDCO's Net Stage III/Tier I Capital ratio stood at a comfortable 7.6% as of December 31, 2019). Any change in the asset mix, which significantly reduces the share of government-backed exposures, will increase the portfolio vulnerability and will also be a credit negative.

ICRA believes HUDCO will remain strategically important to the GoI and will play a major role in the Government's Housing for All scheme. Consequently, it is likely to remain a major financier of housing and UI projects while maintaining adequate profitability and comfortable borrowing and capitalisation levels. Also, ICRA expects that support from the Government would be forthcoming, if required. Hence, the outlook on the long-term rating is Stable.

Key rating drivers and their description

Credit strengths

Strategic importance to and majority ownership by GoI – HUDCO is a nodal agency for the implementation of Government policy for the high-priority sectors of social housing and UI. Further, as one of the major financiers of UI and housing projects, it remains strategically important for achieving the Government's objective of Housing for All. The GoI remains the majority shareholder in HUDCO with a stake of 89.81% as on December 31, 2019. The company has a six-member board (as of March 31, 2020), which includes two nominee directors of the GoI, two independent directors and two functional directors with experience in different fields. Also, HUDCO has well-established relationships with different state governments, making it a preferred lender for their UI and housing projects. Precedents wherein HUDCO has received approval from the GoI to raise tax-free bonds also provide comfort with respect to its financial flexibility and ability to raise low-cost funds.

Relatively low credit risk on portfolio, given the high share of government-backed exposures – Over the past five years, HUDCO has registered strong portfolio growth, wholly driven by disbursements to state governments and public-sector agencies. As a result, the share of its legacy private sector portfolio in the overall portfolio has declined. The public-sector loan book accounted for 96% of the company's total advances as on December 31, 2019 (94% as on December 31, 2018 and 91% as on March 31, 2017). Further, ICRA notes that majority of HUDCO's advances in the public-sector loan book are backed by guarantees/budgetary allocations of the Central or state governments, thus reducing the credit risk for the company.

While ICRA has taken cognizance of the spurt in HUDCO's stage 3 assets in Q3 FY2020 due to two public sector exposures aggregating ~Rs. 869 crore (including one backed by a state government guarantee), it is, however, noted that the larger exposure of Rs. 726 crore was subsequently regularised in January 2020. Also, despite this spurt in the interim, the gross and net stage 3 percentages for HUDCO stood at 5.0% and 1.2%, respectively as on December 31, 2019, with the implied solvency metric (Net Stage 3/Tier I Capital) at a comfortable level of 7.6%. While taking the rating action, ICRA has also noted that HUDCO's stage 2 percentage was elevated at 2.0% in Q3 FY2020 (compared to 0.2% in Q2 FY2020 and 1.1% in Q3 FY2019). In this regard, the company's ability to keep the asset quality and credit costs under control would remain a key rating monitorable. A weakening of the asset quality and a resultant deterioration in solvency (Net Stage III/Tier I Capital), to a level above 40% on a sustained basis, will be a negative for the credit profile.

Comfortable capitalisation – HUDCO's financial profile is characterised by comfortable capitalisation with a CRAR of over 50% and a gearing of 4.9 times (3.2 times if the GoI fully serviced bonds (GoI FSBs) are excluded) as of December 31, 2019. The reported capital adequacy is supported by the 20% risk weight associated with state government-guaranteed exposures and the 0% risk weight for funding to Building Materials and Technology Promotion Council (BMTPC) out of the extra budgetary resources, i.e. GoI FSBs. ICRA, however, notes the increase in HUDCO's borrowing level and hence leverage (gearing was lower at 3.8 times as on March 31, 2018 compared to 4.9 times as on December 31, 2019) on account of the sizeable issuance of GoI FSBs (Rs. 20,000 crore) in FY2019. Nevertheless, it is noted that the GoI FSBs are to be serviced through appropriate budgetary allocation to the Ministry of Housing and Urban Affairs (MoHUA) in the Union Budget. Also, given the wholesale nature of the exposures and the higher concentration in some states, ICRA expects HUDCO to maintain a prudent capitalisation level.

Healthy financial flexibility and adequate liquidity profile – HUDCO's ALM profile is characterised by positive cumulative mismatches in the medium-term and long-term buckets, with sufficient unutilised bank lines available for plugging any mismatches in the near term. Its funding profile is favourable as ~63% of the borrowings on its books are in the form of tax-free bonds and GoI FSBs with a maturity profile of 10-15 years while 5% are in the form of refinance assistance from National Housing Bank (NHB) with a tenure of up to 10 years. This augurs well for its ALM profile with low cumulative mismatches. Moreover, the healthy financial flexibility, backed by its parentage and strategic importance to the GoI, supports the liquidity profile.

Credit challenges

Concentration risk – While the credit risk for HUDCO's loan portfolio is mitigated by the presence of government guarantees and/or budgetary allocations for debt repayments, the weak financial profile of many of the state governments remains a risk, especially given its concentrated exposure to states such as TEL, UP and AP. As on March 31, 2019, HUDCO's exposure to TEL accounted for about 120% of its net worth while its exposure to all three states aggregated 290% of its net worth. In this regard, while NHB has been providing exposure norm-related relaxations to HUDCO, a road map has been set whereby the company is required to take suitable steps to bring down its exposure (as a percentage of net owned funds) to Government/public agencies and to state governments (under group exposure) in the exempted cases as well to 50% and 100%, respectively, by March 2023.

Modest profitability indicators – While HUDCO's revenues in FY2019 benefitted from the sizeable income recognised in relation to recoveries, its net interest margin remained rangebound. Even after including the impact of sizeable recoveries, its profitability indicators remained modest with return on equity (RoE) was 11.2%. Further, while the company reported an improvement in profitability in H1 FY2020, the RoE dipped to about 7% in Q3 FY2020 due to the

Rs. 166-crore provision booked in the backdrop of higher stage 2 and stage 3 exposures. Nevertheless, ICRA notes that the company's relatively less risky exposure results in modest yields and hence profitability.

Liquidity position: Adequate

While HUDCO does not maintain sizeable on-balance sheet liquidity, its ALM profile is characterised by positive cumulative mismatches in the medium-term and long-term buckets, with sufficient unutilised bank lines (Rs. 6,140 crore as on March 30, 2020) available for plugging any mismatches in the near term. Its funding profile is favourable as ~63% of the borrowings on its books are in the form of tax-free bonds and GoI FSBs with a maturity profile of 10-15 years while 5% are in the form of refinance assistance from NHB with a tenure of up to 10 years. This augurs well for its ALM profile with low cumulative mismatches. Moreover, the healthy financial flexibility, backed by its parentage and strategic importance to the GoI, provides comfort.

ICRA notes that the near-term gaps in the ALM could widen if the entity permits the underlying borrowers to defer repayments by three months, in line with the RBI's latest directions. However, it is noted that HUDCO's loan assets have quarterly repayment cycles with the majority aligned to the February-May-August-November cycle. Hence, the company had already collected most of the scheduled dues for Q4 FY2020, prior to the imposition of the lockdown in March 2020. Further, the next repayment date for a large proportion of the loan book coincides with the end of the currently proposed moratorium.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – ICRA could change the rating outlook to Negative or downgrade the ratings on a change in ownership and/or a change in HUDCO's strategic role or importance to the GoI. Also, a deterioration in the solvency to a level above 40% on a sustained basis will be a negative for the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's credit Rating Methodology for Housing Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings derive significant strength from HUDCO's sovereign ownership (89.81% held by the GoI as of December 31, 2019) and its important role as a nodal agency for the implementation of Government policy in the high-priority sectors of social housing and UI. ICRA expects support from the GoI to be forthcoming, if required.
Consolidation/Standalone	Standalone

About the company

Housing and Urban Development Corporation Ltd. (HUDCO), incorporated in 1970, is a listed Miniratna public sector enterprise under the Ministry of Housing and Urban Affairs, Government of India (GoI). It is a public financial institution registered as a housing finance company (HFC) with NHB, and primarily finances social housing and UI projects. The GoI held a share of 89.81% in HUDCO, as of March 31, 2020, while the balance was held by the public.

HUDCO reported a profit after tax (PAT) of Rs. 1,180 crore in FY2019 against PAT of Rs. 1,010 crore in FY2018. It reported a capital adequacy ratio of 57.9% as on March 31, 2019 compared to 52.0% as on March 31, 2018.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Unaudited)
Accounting Standard	Ind-AS*	Ind-AS	Ind-AS	Ind-AS
Total Income	3,585	4,184	5,591	5,672
PAT	842	1,010	1,180	1,267
Net Worth	9,074	9,943	10,956	12,179
Gross Advances	39,661	49,530	73,325	74,294
Return on Net Worth (%)	9.6%	10.6%	11.2%	14.6%
Gearing (times)	3.2	3.8	5.6	4.9
CRAR	58.6%	52.0%	57.9%	NA
Gross Stage 3 (%)	8.2%	7.2%	4.5%	5.0%
Net Stage 3 (%)	2.7%	2.0%	0.5%	1.2%
Net Stage 3/Net Worth	11.1%	9.3%	3.2%	7.5%

*Source: HUDCO; Amounts in Rs. crore; *P&L as per I-GAAP; Balance sheet as per Ind-AS*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018
					01-May-20	06-Apr-20	29-Jul-19	11-Apr-19	13-Jul-18	30-May-18	05-Jul-17
1	Long-term Borrowing Programme FY2021	LT	28,000.00	2,100.00^^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-
2	Long-term Borrowing Programme FY2020	LT	7,695.00	7,695.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
3	Long-term Borrowing Programme FY2020	LT	22,305.00	-	Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
4	Long-term Borrowing Programmes up to FY19	LT	27,710.00	27,710.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Long-term Borrowing Programmes up to FY19	LT	3,408.76	-	Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	Commercial Paper	ST	10,000.00	1,200.00^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fund Based – Term Loan	LT	150.00	30.169*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
8	Fund Based – Cash Credit	LT	4,100.00	1,480.04*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
9	Non-fund Based	LT	2,050.06	1,175.06*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
10	Short-term Loans	ST	4,439.94	472.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
11	Unallocated	LT/ST	14,260.00	-	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+
12	Fixed Deposit Programme	MT	-	~	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

*Note: LT: Long term, ST: Short term, MT: Medium term; ^ As of March 31, 2020; ~Rs. 2,000-crore programme with Rs. 174.92 crore outstanding as on December 31, 2019; ^^ As of April 24, 2020; *As of April 27, 2020; Source: ICRA research*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE031A08780	Taxable Bond	24-Apr-20	6.09%	24-Jun-23	1,500.00	[ICRA]AAA (Stable)
INE031A08772	Taxable Bond	15-Apr-20	6.65%	15-Jun-23	600.00	[ICRA]AAA (Stable)
INE031A08715	Taxable Bond	7-Jun-19	7.61%	22-Jun-22	1,485.00	[ICRA]AAA (Stable)
INE031A08723	Taxable Bond	20-Jun-19	7.62%	15-Jul-22	1,000.00	[ICRA]AAA (Stable)
INE031A08731	Taxable Bond	18-Jul-19	7.34%	16-Sep-22	1,250.00	[ICRA]AAA (Stable)
INE031A08749	Taxable Bond	13-Aug-19	7.05%	13-Oct-22	1,190.00	[ICRA]AAA (Stable)
INE031A08756	Taxable Bond	11-Sep-19	6.99%	11-Nov-22	1,370.00	[ICRA]AAA (Stable)
INE031A08764	Taxable Bond	17-Jan-20	6.79%	14-Apr-23	1,400.00	[ICRA]AAA (Stable)
INE031A08491	Taxable Bond	25-Oct-16	7.21%	25-Apr-20	200.00	[ICRA]AAA (Stable)
INE031A08509	Taxable Bond	18-Nov-16	6.80%	18-May-20	700.00	[ICRA]AAA (Stable)
INE031A08525	Taxable Bond	21-Mar-17	7.59%	21-Jun-20	565.00	[ICRA]AAA (Stable)
INE031A08533	Taxable Bond	14-Jul-17	7.05%	14-Aug-20	400.00	[ICRA]AAA (Stable)
INE031A08541	Taxable Bond	22-Nov-17	7.14%	22-Dec-20	700.00	[ICRA]AAA (Stable)
INE031A08566	Taxable Bond	21-Feb-18	7.73%	15-Apr-21	675.00	[ICRA]AAA (Stable)
INE031A08590	Taxable Bond	27-Mar-18	7.68%	5-Apr-21	460.00	[ICRA]AAA (Stable)
INE031A08608	Taxable Bond	3-Apr-18	7.63%	3-May-21	100.00	[ICRA]AAA (Stable)
INE031A08616	GoI FSB*	12-Nov-18	8.60%	12-Nov-28	3000.00	[ICRA]AAA (Stable)
INE031A08624	GoI FSB*	28-Nov-18	8.52%	28-Nov-28	2050.00	[ICRA]AAA (Stable)
INE031A08632	Taxable Bond	5-Dec-18	8.46%	15-Feb-22	1000.00	[ICRA]AAA (Stable)
INE031A08640	Taxable Bond	11-Dec-18	8.40%	11-Apr-22	980.00	[ICRA]AAA (Stable)
INE031A08657	Taxable Bond	28-Dec-18	8.23%	15-Apr-22	930.00	[ICRA]AAA (Stable)
INE031A08665	Taxable Bond	11-Jan-19	8.34%	11-Jul-22	1000.00	[ICRA]AAA (Stable)
INE031A08673	GoI FSB*	30-Jan-19	8.38%	30-Jan-29	2066.90	[ICRA]AAA (Stable)
INE031A08681	GoI FSB*	14-Feb-19	8.58%	14-Feb-29	2563.10	[ICRA]AAA (Stable)
INE031A08699	GoI FSB*	15-Mar-19	8.41%	15-Mar-29	5320.00	[ICRA]AAA (Stable)
INE031A08707	GoI FSB*	25-Mar-19	8.37%	25-Mar-29	5000.00	[ICRA]AAA (Stable)
NA	Commercial Paper	-	-	7-365 days	10,000.00	[ICRA]A1+
NA	Long-term Fund Based	-	-	-	4,250.00	[ICRA]AAA (Stable)
NA	Non-fund Based	-	-	-	2,050.06	[ICRA]AAA (Stable)
NA	Short-term Fund Based	-	-	-	4,439.94	[ICRA]A1+
NA	Unallocated	-	-	-	14,260.00	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Fixed Deposits	-	-	-	~	MAAA (Stable)

*Source: HUDCO; *Government of India Fully Serviced Bonds (taxable); ~Rs. 2,000-crore programme with Rs. 174.92 crore outstanding as on December 31, 2019*

Annexure-2: List of entities considered for consolidation: Not applicable

Analyst Contacts

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

Manushree Saggar
+91 124 4545 316
manushree@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Relationship Contact

L. Shivakumar
+91-22-6114 3406
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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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
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