

North Eastern Electric Power Corporation Limited
 February 14, 2020

Rating

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|--|---|---|
| Non-Convertible Debenture Issue | 2,500 (Rupees Two Thousand Five Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 600 (Rupees Six Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 900 (Rupees Nine Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 300 (Rupees Three Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 500 (Rupees Five Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 300 (Rupees Three Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 300 (Rupees Three Hundred crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Non-Convertible Debenture Issue | 150 (Rupees One Hundred Fifty crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |
| Proposed Non-Convertible Debenture Issue | 50 (Rupees Fifty crore Only) | CARE AA; Credit Watch with Developing Implications (Double A; Credit watch with Developing implications) | Placed on Credit watch with Developing implications |

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the rating of long term bonds of North Eastern Electric Power Corporation Limited (NEEPCO) on Credit Watch with Developing Implication on account of the in-principle approval given by the Board of NTPC Limited (NTPC) for the acquisition of 100% stake in NEEPCO from Government of India (GoI) subject to necessary regulatory approvals as may be required. This announcement follows the earlier announcement of the Cabinet Committee of Economic Affairs on divestment of GoI's entire stake in NEEPCO. The need based funding support to NEEPCO by NTPC going forward would remain key rating monitorable.

The rating continues to draw strength from the strategic importance of NEEPCO to India's power sector in North-Eastern Region (NER), NEEPCO's established track record in implementing power projects in NER and satisfactory operational efficiency of its power stations, revenue visibility backed by assured returns based on the Central Electricity Regulatory Commission (CERC) fixed tariffs and satisfactory financial risk profile.

The rating is however, constrained by residual risks attached to further delay in implementation of the Kameng Hydroelectric project (600MW) with substantial cost escalation coupled with approval for the capex incurred for the

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

same from regulatory bodies and power off take risk for around 58% of its capacity, under recovery of capacity charges by the gas based power plants due to short supply of gas, delay in receipt of equity from Gol for the ongoing/ completed Hydroelectric Projects leading to increased reliance on borrowings and counter party credit risks mainly from Meghalaya Energy Corporation Limited (MeECL). The rating also takes into consideration the penstock rupture and resultant flooding of Kopili Power House (200 MW) leading to shutdown of the unit and the expected resultant loss of revenue till Q1FY22.

Rating Sensitivities

Positive Factors

- The operating parameters remaining much above the normative parameters on a sustained basis.
- Improvement in profitability margins above 18% on a sustained basis.
- Improvement in capital structure with overall gearing ratio improving below 0.30x on a sustained basis

Negative Factors

- Non-approval of escalated capex costs by Central Electricity Authority (CEA) & subsequent tariff revision by CERC and non-receipt of equity from Gol for Kameng project
- Non-commencement of all the 4 units of Kameng power plant by September 30, 2020
- Non-receipt of equity of Rs.309 crore from Gol towards Pare and Tuirial projects within FY20
- Deterioration in capital structure with overall gearing ratio of the company going above 1.25x.

Detailed description of the key rating drivers

Key Rating Strengths

Disinvestment of stake in NEEPCO by Gol

In a move to provide thrust to privatization and help government garner higher proceeds to meet its disinvestment target for FY20 (Rs.105,000 crs), the Cabinet Committee on Economic Affairs had approved the strategic disinvestment of five Central Public Sector Enterprises (CPSEs) including NEEPCO.

In respect of above, subject to applicable provisions of the Companies Act 2013 (along with any rules, regulations and guidelines made thereunder) and any other applicable legislations and provisions of the Memorandum and Articles of Association and necessary approvals, as may be required, the Board of NTPC on January 27, 2020 gave in-principle approval for the acquisition of entire equity stake of Government of India in NEEPCO. NEEPCO shall become a wholly-owned subsidiary of NTPC. The need based funding support to NEEPCO by NTPC going forward would remain key rating monitorable. Further, with the inclusion of the renewable generation capacity (1,530 MW) of NEEPCO, it would help NTPC diversifying its generation portfolio.

Established track record in implementing power projects in North-East India

NEEPCO has wide experience and expertise in implementing hydro projects in the north-east which provides it significant competitive advantages over others. NEEPCO originated with a hydro power plant of 250 MW named as Kopili Hydro Electric Project (with COD in phases during 1984 and 1988) followed by NEEPCO's first gas based power project (291MW) in the state of Assam during 1995-99. The said power plants are the oldest (around 20-30 years old) amongst its operational facilities with a satisfactory generation history.

NEEPCO's strong project management skills are demonstrated through its successful completion and operation of the power projects in the toughest of the terrains. In 2018, NEEPCO commissioned two new hydroelectric power plants namely Tuirial hydroelectric project (60 MW) and Pare hydroelectric project (110 MW). The said plants are operational with satisfactory levels of power generation.

Strategic importance of NEEPCO to India's power sector in NER

NEEPCO is into generation of power through Hydro and Thermal power in the NER with a total installed capacity of 1,457 MW (as on Aug'19); making NEEPCO the largest power producer in NER by catering to ~38% of the installed capacity of NER Grid.

Satisfactory operational efficiency of power stations

NEEPCO through its current installed capacity of 1,457 MW (925MW – hydro, 527MW- thermal & 5MW - solar) in the NER supplies power to all the seven states of North-Eastern India. Operational efficiency for the Hydroelectric projects remained stable in FY19 compared to FY18. The actual generation remained stable at 3,125 MU in FY19 vis-à-vis 3,124 MU in FY18. However, in Q1FY20, the same witnessed a slight decline to 792 MU compared to 808 MU in Q1FY19 due to delayed monsoon resulting in less availability of reservoir water.

Further, being the 1st year of operation of the Tuirial and Pare hydroelectric plants, the Tuirial plant generated 168 MU power against an energy design of 251 MU while the Pare plant generated 347 MU power against an energy design of 506 MU (from June 2018 to March 2019). In Q1FY20, the Pare plant generated 112 MU compared to 71 MU in Q1FY19.

The performance of NEEPCO's gas based power plants in terms of generation levels have remained satisfactory over the years with an average PLF of around 64% in FY19 (64% in FY18) and 67% in Q1FY20 (58% in Q1FY19). However, the plants have consistently operated below normative parameters mainly PAF as defined by CERC due to short supply of gas leading to under recovery of capacity charges and consequently under-recovery of revenues.

Revenue visibility backed by assured returns based on the CERC fixed tariffs

The tariffs for each power station of NEEPCO are determined as per the tariff regulation notified by CERC. The tariff is determined by referring to Annual Fixed Charges (AFC), which comprise of interest on loan, depreciation, interest on working capital, operation & maintenance expenses (O&M) and Return on Equity (ROE). While the 'cost-plus tariff' mechanism assures recovery of cost, there is a risk of probable non-receipt of approval for various costs incurred, upon non-achievement of normative operational parameters. Also, sale of energy is governed by Bulk Power Supply Agreements (BPSA)/ Power Purchase Agreements (PPA) signed by NEEPCO with the Beneficiaries (currently all the seven states of NER). The company received the tariff order till FY19 for its newly set up Tuirial Hydropower plant in October 2018.

CERC released the tariff order for Tuirial Hydropower Plant till FY19 in October 2018 and for Tripura Gas based plant till FY19 in April 2019. The truing-up for the hydropower plants of NEEPCO has been done till FY14. Since CERC issues multi-year tariff orders (FY15-FY19) for the power plants of NEEPCO, the filing for truing-up by NEEPCO has been done in FY20 except for Pare Hydro power plant.

Further, CERC has issued the tariff order for Pare hydro power plant on January 28, 2020 wherein the major cost incurred on the project has been approved.

Also, as per the revised CERC regulations for 2019-2024, the Normative Annual Plant Availability Factor (NAPAF) for Kopili – 1, Khandong and Doyang hydroelectric plants have been reduced whereas the NAPAF for Ranganadi HEP has been increased. Further, the normative Station Heat Rate (SHR) for Assam and Agartala gas based power plants have been increased. With regard to O&M expenses, the normative O&M has been increased for all the hydro based power plants of the company. Overall on a net basis, the revision done in CERC regulations shall be beneficial for NEEPCO.

Satisfactory financial risk profile

NEEPCO's revenue from sale of power witnessed a growth of 23% y-o-y in FY19 compared to FY18 on account of recognition of earlier year sales arising out of finalisation of tariff in FY19 amounting to Rs.86.75 crore, increased sale of power generated from Tuirial and Pare Power plants having higher tariffs of Rs.4.47/unit and Rs.5/unit respectively as compared to the company's average tariff of Rs.3.53/unit in FY19.

The PBILDT witnessed an increase from Rs.607 crore in FY18 to Rs.752 crore in FY19 on account of increase in revenue from power sales. The finance cost witnessed an increase from Rs.69 crore in FY18 to Rs.157 crore in FY19 on account of completion of Pare hydro project in May 2018 leading to booking of interest for 10 months in P&L account (earlier capitalized) and Tuirial Hydro Project completed in Jan 2018 leading to booking of interest cost in P&L account for the entire year in FY19 (booking of interest in P&L account only for 2 months in FY18). As a result, PAT witnessed a decline from Rs.275 crore in FY18 to Rs.214 crore in FY19 (despite recognition of regulatory income amounting to Rs.162 crore in FY19 vis-à-vis Rs.36 crore in FY18). Increase in regulatory income is on account of i) Higher rate of depreciation being allowed as per CERC regulation for Tuirial HEP for first 12 year of operation vis-à-vis depreciation recoverable through tariff & ii) deferred tax adjustment.

GCA improved and remained comfortable at Rs.557 crore in FY19 vis-à-vis a debt repayment obligation of Rs.348.2 crore (including short term loan of Rs.200 crore). The current ratio of the company stood below unity at 0.86x as on March 31, 2019.

In H1FY20, the company earned PAT of Rs.247.54 crore (Rs.205.95 crore in H1FY19) on a total operating income of Rs.1089.37 crore (Rs.979.91 crore in H1FY19).

The company has a satisfactory capital structure with a debt equity ratio of 1.09x as on March 31, 2019 (1.06x as on March 31, 2018). The overall gearing ratio though deteriorated marginally, continued to remain satisfactory at 1.16x as on September 30, 2019 vis-à-vis 1.14x as on March 31, 2019 on account of increase in total debt to meet the ongoing project requirements. The company's interest coverage ratio deteriorated from 8.75x in FY18 to 4.78x in FY19 on account of significant increase in interest cost in FY19 (due to completion of Pare & Tuirial projects leading to booking of interest cost in P&L account). The TDGCA of the company witnessed an improvement from 15.71x in FY18 to 12.68x in FY19 on account of increase in gross cash accruals.

Key Rating Weaknesses

Counterparty risk

NEEPCO, like other PSUs in the power sector, has State Power Utilities (SPUs) as its customers and thereby is exposed to counter-party risks. NEEPCO's customer includes all the seven states in the North-East India, with Assam Power Distribution Company Limited (APDCL), accounting for around 40% of its billings for FY19 (43% in FY18). The recovery of sale proceeds from MeECL has all along been an issue due to weak financial profile of the SPUs.

The old dues (more than 45 days) stood at Rs.358.20 crore from MeECL as on June 30, 2019. NEEPCO has entered into an agreement with MeECL for establishment of 2 escrow accounts for a period of 3 months ending September 30, 2019 with ceiling of Rs.25 crore and Rs.5 crore for clearing NEEPCO's monthly energy bills and old dues respectively. Currently, MeECL is availing power from NEEPCO by making time to time advance payments since August 01, 2019.

The overall debtor's receivable days however remained stable with slight improvement from 100 days in FY18 to 98 days in FY19. Going forward, given the weak financial health of the distribution utilities, timely collection of the proceeds would remain a key rating sensitivity.

Residual Risks attached to further delay in implementation of Kameng HEP

Kameng Hydroelectric project (600 MW) is under the Hon'ble Prime Minister's PRAGATI Program. The plant was ready to be commissioned in March 2018, however during trial run some technical issue (temporary setback in the high pressure zone of Water Conductor System) had cropped in resulting in expected delay in plant commissioning to October 2019 and further to February 2020 for the 1st two units (300 MW) and July 2020 (extended from March 2020) for the last 2 units (300 MW).

The revised estimated cost now stands at Rs.7927 crore (earlier estimate of Rs.7500 crore). Currently, CEA has approved project cost of Rs.6180 crore. The approval of escalated cost by CEA and subsequent tariff approval by CERC for Kameng project remains key rating monitorable.

As on August 31, 2019, ~42% of Kameng's capacity had been tied up under long term power purchase agreement. NEEPCO has requested MoP for de-allocation of the shares of Maharashtra, Gujrat, Rajasthan, Delhi, Punjab, Chandigarh, Madhya Pradesh, Mizoram, Manipur and Tripura which accounts for a total of 255 MW and declare this de-allocated capacity plus 90 MW unallocated share of NER states (i.e.345 MW) as available for merchant sale to enable trading at the power exchanges and/or entering into bilateral agreements with willing customers. Reallocation of such share by the Government before the project commissioning as well as signing of the PPAs remains a key rating sensitivity.

Delay in Equity infusion by Gol

The recently completed/ ongoing hydro projects (Pare, Tuirial & Kameng) have undergone substantial time and cost overrun, which therefore requires necessary approvals from the Government/ Regulator to arrive at the revised cost estimates and resultantly the absolute equity contribution figures from the Gol. Awaiting timely approval of the revised cost estimates, the equity contribution by Gol has remained intermittent and has led to increased reliance on borrowings. Out of the budgetary allocation of Rs.267.5 crore, NEEPCO received Rs.61 crore in FY19 against the completed projects of Tuirial and Pare hydro power plants since the same is pending for approval in Public Investment Board (PIB). Further, Rs.309 crore equity infusion for the newly-commissioned projects – Pare and Tuirial has been approved by Revised Cost Committee and pending for PIB approval by March 2020. However, pending receipt of equity from Gol and pending cost approvals, the company has temporarily funded the project expenses partly out of internal accruals and partly through debt.

Penstock rupture and resultant flooding of Kopili Power House, Assam

The penstock-I feeding 2 units (50MW each) of the Kopili Power Station, Assam of NEEPCO was ruptured following a Load throw off and tripping of Unit-I (50MW) on October 07, 2019. The valve could not be closed to isolate the Penstock leading to the flooding of power house upto the EOT Crane beam level. Hence all the 4 units of Kopili power plant (50MW each) are in shutdown position. As per the management, the plant is expected to recommission from Q1FY22. The estimated cost of repair and maintenance is expected to be around Rs.475 crore which is expected to be funded out of loan. The Kopili plant is a 32 year old plant and the closure of the same shall not have a major impact on the PBILD margin of the company.

Liquidity Analysis - Adequate

The liquidity position of NEEPCO is adequate with the company having a debt repayment obligation of Rs.251 crore in FY20 (including repayment of short term loan of Rs.100 crore) against which the company is expected to generate adequate cash flows to meet the debt repayment obligation for FY20. The company has already repaid Rs.39 crore loan till January 31, 2020. The company has liquidity cushion in the form of undrawn medium term loan of Rs.400 crore (out of sanction of Rs.500 crore) and undrawn working capital lines of Rs.540 crore as on February 05, 2020.

Further, Gol has budgeted an equity infusion of Rs.684 crore in FY20 for its share of capex funding for Kameng, Pare & Tuirial projects out of which the company was expecting to receive Rs.309 crore by March 2020. Post announcement of the divestment, the clarity on the flow of this fund remains to be seen.

This apart, the company has a fund raising programme of Rs.1,750 crore in FY21 (approved by the board out of which Rs.1,250 crore has been tied-up) which shall support it to meet its debt repayment obligation of Rs.1,573 crore (including repayment of short and medium term loans) for FY21.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

About the Company

NEEPCO, incorporated in the year 1976 as a Gol undertaking (100% holding), is a Miniratna Category – I company. The company is currently engaged into generation of power in the NER with a total installed capacity of 1,457 MW; making NEEPCO the largest power producer in NER, catering to around 40% of the region's energy requirements. Of the total

installed capacities, 925 MW (63.5%) pertains to Hydro based capacities with seven operational capacities instituted across the states of Assam (4 capacities), Nagaland (1 capacity) and Arunachal Pradesh (2 capacity). The balance 527 MW (36.2%) pertains to its gas based capacities with three operational capacities, one in Assam and two in Tripura (Agartala and Monarchak) followed by solar based power plant of 5MW installed in Tripura.

| Brief Financials (Rs. Crore) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total Operating Income | 1646.26 | 2051.60 |
| PBILDT | 606.94 | 751.75 |
| PAT | 274.66 | 213.94 |
| Overall gearing (times) | 1.10 | 1.14 |
| Interest coverage (times) | 8.75 | 4.78 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---------------------------------------|--------------|--------------------|-------------|--------------------|-------------------------------|---|
| Debentures-Non Convertible Debentures | INE636F07183 | October 01, 2014 | 9.60% | October 01, 2024 | 2500.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07191 | March 25, 2015 | 9.15% | March 25, 2025 | 600.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07209 | September 30, 2015 | 8.68% | September 30, 2030 | 900.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07217 | March 27, 2017 | 7.80% | May 27, 2020 | 300.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07241 | November 29, 2018 | 9.50% | November 29, 2025 | 300.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07225 | November 15, 2017 | 7.68% | November 15, 2025 | 500.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07233 | March 06, 2018 | 8.75% | March 6, 2028 | 300.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | INE636F07258 | September 26, 2019 | 8.69% | September 26, 2027 | 150.00 | CARE AA (Under Credit watch with Developing Implications) |
| Debentures-Non Convertible Debentures | | | | | 50.00 | CARE AA (Under Credit watch with Developing Implications) |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|---|---|--|---|--|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Debentures-Non Convertible Debentures | LT | 2500.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA; Stable (21-Sep-18) | 1)CARE AA; Stable (17-Oct-17) | 1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16) |
| 2. | Debentures-Non Convertible Debentures | LT | 600.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA; Stable (21-Sep-18) | 1)CARE AA; Stable (17-Oct-17) | 1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16) |
| 3. | Debentures-Non Convertible Debentures | LT | 900.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA; Stable (21-Sep-18) | 1)CARE AA; Stable (17-Oct-17) | 1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16) |
| 4. | Debentures-Non Convertible Debentures | LT | 300.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA; Stable (21-Sep-18) | 1)CARE AA; Stable (17-Oct-17) | 1)CARE AA; Stable (06-Mar-17) |
| 5. | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (13-Nov-18) 2)CARE AA; Stable (21-Sep-18) | 1)CARE AA; Stable (17-Oct-17) | - |
| 6. | Debentures-Non Convertible Debentures | LT | 300.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA; Stable (13-Nov-18) 2)CARE AA; Stable (21-Sep-18) | - | - |
| 7. | Debentures-Non Convertible Debentures | LT | 500.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA (21-Sep-18) | - | - |
| 8. | Debentures-Non Convertible Debentures | LT | 300.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | 1)CARE AA; Stable (21-Sep-18) | - | - |
| 9. | Debentures-Non Convertible Debentures | LT | 150.00 | CARE AA (Under Credit watch with Developing Implications) | 1)CARE AA; Negative (17-Sep-19) | - | - | - |
| 10. | Debentures-Non Convertible Debentures | LT | 50.00 | CARE AA (Under Credit watch with Developing Implications) | - | - | - | - |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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