

# ZODIAC

24<sup>th</sup> September, 2022

National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra East Mumbai - 400051 <b>Scrip Code : ZODIACLOTH</b>	BSE Limited, Corporate Relationship Department, First Floor, New Trading Ring, Rotunda Building, P.J. Tower, Dalal Street, Mumbai - 400001 <b>Scrip Code : 521163</b>
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**Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Dear Sirs,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that CARE Ratings Ltd. (CARE) has vide its letter dated 22<sup>nd</sup> September, 2022 (received by us on 23<sup>rd</sup> September, 2022) reviewed and assigned the following credit rating:

Facilities/Instruments	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	57.21 (Enhanced from 54.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Positive
<b>Total Bank Facilities</b>	57.21 (₹ Fifty-Seven Crore and Twenty-One Lakhs Only)		

The reasons for the above rating provided by CARE is reproduced below and a copy of the CARE letter dated 22<sup>nd</sup> September, 2022 and Annexures thereto is attached herewith :

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the rating factors in, ZCCL's improvement in revenue in FY22 as well as Q1FY23 vis-à-vis previous year, diversified geographical presence, experienced promoters, adequate liquidity of the company in form of liquid investment and its low leverage. The rating continues to remain constrained by continuance of losses on account of intense competition and low-price flexibility.

**ZODIAC CLOTHING COMPANY LTD.,**

Nyloc House, 254, D-2, Dr. Annie Besant Road, Worli, Mumbai – 400 030. India.

Tel.: +91 22 6667 7000 Fax: +91 22 6667 7279 CIN: L17100MH1984PLC033143

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www.zodiaconline.com

# ZODIAC

## Rating sensitivities

### Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase its scale of operations with total operating income beyond Rs. 200 crores through volume driven growth on a sustained basis.
- Improvement in its PBILDT margin above 5% on sustained basis.
- Improvement in its operating cycle to below 180 days on a sustained basis.

### Negative factors – Factors that could lead to negative rating action/downgrade:

- Further pressure on revenues and earnings resulting in continuance of PBILDT margin being negative.
- Deterioration in its overall gearing to over 0.75x and Total debt to Gross Cash Accruals (TDGCA) of more than 5x on sustained basis.
- Reduction in free cash & cash equivalents below Rs. 10 crores.

### Outlook: Stable

ZCCL's outlook has now been revised from Positive to Stable on account of continuing PBILDT level losses during FY 22 & Q1FY23 and due to significant variance in profitability envisaged earlier for FY22 vis-a-vis the actuals of FY22. You are requested to kindly take the above information on record.

Thanking you.

## For Zodiac Clothing Company Limited

SALMAN  
YUSUF  
NOORANI

Digitally signed by  
SALMAN YUSUF NOORANI  
Date: 2022.09.24 13:07:23  
+05'30'

**Salman Yusuf Noorani**  
**Vice Chairman and Managing Director**

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No. CARE/HO/RL/2022-23/2391

**Shri B. Mahabala**  
**Vice President-Commercial & CFO**  
**Zodiac Clothing Company Limited**  
Nyloc House 254, D-2, Dr. Annie Besant Road,  
Worli,  
Mumbai  
Maharashtra 400030

September 22, 2022

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your Company for FY22 (Audited) and Q1FY23, and the possible impact of the same on the credit profile of your company, our Rating Committee has reviewed the following ratings:

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>1</sup></b>	<b>Rating Action</b>
<b>Long Term Bank Facilities</b>	<b>57.21 (Enhanced from 54.00)</b>	<b>CARE BB+; Stable (Double B Plus; Outlook: Stable)</b>	<b>Reaffirmed; Outlook revised from Positive</b>
<b>Total Facilities</b>	<b>57.21 (Rs. Fifty-Seven Crore and Twenty-One Lakhs Only)</b>		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure 2. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by September 23, 2022, we will proceed on the basis that you have no any comments to offer.
4. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

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<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and in other CARE Ratings Ltd.'s publications.  
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5. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating, CARE Ratings Ltd. shall carry out the review on the basis of best available information. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. Our ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website [www.careedge.in](http://www.careedge.in) for latest update on the outstanding rating.
9. CARE Ratings Ltd. ratings are not recommendations to sanction, renew, disburse or recall any bank facilities.
10. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE Ratings Ltd.

Thanking you,

*Ragini*

**Ragini Surve**  
Analyst  
Ragini.Surve@careedge.in

*Soumya Dasgupta*

**Soumya Dasgupta**  
Assistant Director  
soumya.dasgupta@careedge.in

Encl.: As above

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Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**Annexure 1**

**Details of Rated Facilities**

**1. Long Term Facilities**

**1.A. Fund Based Limits**

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	HDFC Bank Ltd.	25.00	
2.	RBL Bank Limited	20.00	
3.	Bank of Maharashtra	5.00	
4.	HDFC Bank Ltd.	4.43	4 year tenor including 1 year moratorium. Equal monthly repayments
5.	RBL Bank Limited	2.78	4 year tenor including 1 year moratorium. Equal monthly repayments
	<b>Total</b>	<b>57.21</b>	

**Total Long Term Facilities : Rs.57.21 crore**

**Total Facilities (1.A) : Rs.57.21 crore**

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**Annexure 3- Draft Press Release**  
**Zodiac Clothing Company Limited**  
 September xx 2022

**Ratings**

Facilities/Instruments	Amount (₹ crore)	Rating <sup>2</sup>	Rating Action
Long Term Bank Facilities	57.21 (Enhanced from 54.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Positive
<b>Total Bank Facilities</b>	<b>57.21</b> <b>(₹ Fifty-Seven Crore and Twenty-One Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the rating factors in, ZCCL's improvement in revenue in FY22 as well as Q1FY23 vis-à-vis previous year, diversified geographical presence, experienced promoters, adequate liquidity of the company in form of liquid investment and its low leverage. The rating continues to remain constrained by continuance of losses on account of intense competition and low-price flexibility.

**Rating sensitivities**

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Increase its scale of operations with total operating income beyond Rs. 200 crores through volume driven growth on a sustained basis.
- Improvement in its PBILDT margin above 5% on sustained basis.
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- Reduction in free cash & cash equivalents below Rs. 10 crores.

**Outlook: Stable**

ZCCL's outlook has now been revised from Positive to Stable on account of continuing PBILDT level losses during FY 22 & Q1FY23 and due to significant variance in profitability envisaged earlier for FY22 vis-a-vis the actuals of FY22.

**Detailed description of the key rating drivers**

**Key rating weaknesses**

**Continuance of operating losses:** ZCCL continues to book EBITDA loss at Rs. 16.51 crores during FY 22 (FY21: loss of Rs. 21.73 crores). Though the losses have been narrowed down, the company continues at negative profitability on account of low pricing flexibility. Lower sales on account of competition in the market against the increasing operating cost has continued to impact the profitability of the company. The full impact of measures such as reduction in operating cost by switching the rental cost on revenue sharing model and lower personnel cost has resulted in restricting the PBILDT losses in FY22. In Q1FY23, ZCCL booked PBILDT losses at Rs. 2.14 crores (Q1FY22: loss of Rs. 6.56 crores; Q4FY22: loss of Rs. 3.85 crores). The operating loss was contracted in Q1FY23, considering higher sales achieved by the

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<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications  
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company as against the stabilised overall operational cost in the quarter. In addition to this, ZCCL's lack of backward integration continues to constrain the company in cost optimisation.

**Improvement in revenue albeit operations continue to operate at small scale:** ZCCL's scale of operations continues to remain small as reflected by total income from operations at Rs. 126.76 crores in FY22 (FY21: Rs. 100.45 crores). The revenue growth of 26% in FY22 is driven by pent-up demand and consumer demographics which further resulted in improvement in sales volume as well as prices. Given the gradual uptick in demand, the company was able to operate at 43.08% of its capacity in FY22 (FY21: 35.26%). The revenue is estimated to improve from FY23 considering the opening of economy leading to increase in demand and commencement of commercial production in Bangladesh unit. The said unit is expected to benefit the company in terms of both productivity and manageable employee cost.

#### **Deteriorating working capital cycle**

Widespread dealers, EBOs and exports necessitates holding large inventory to cater to assortment of product demand from the distribution network resulting in high inventory days and consequently elongated working capital cycle. Though the average working capital cycle has improved to 202 days in FY22 (FY21: 274 days), it continues to remain elongated. Reduction in both inventory days and receivable days has been seen in FY22 at 209 days (FY21: 275 days) and 58 days (FY21: 66 days), respectively. As on March 31, 2022, ZCCL has receivable amounting to Rs. 26.13 crores (FY20: Rs. 20.23 crores) in form of export benefit and GST refund. As per the management, the clearing of receivables is going to aid the company in terms of liquidity and funding the marginal capex.

#### **High competition in exports and fashion retail:**

ZCCL faces high degree of competition in export markets from low-cost producer countries such as Vietnam and Bangladesh among others. These countries have emerged as India's competitors owing to their Least Developed Country status or effective trade agreements. The company also faces intense competition in domestic markets from large and established brick and mortar retailers along with e-commerce players like Amazon, Flipkart, Myntra.

**Foreign currency fluctuation risk:** As on March 31, 2022; total foreign exchange earnings stood at Rs. 74.61 crore against Rs. 21.08 crore of foreign exchange outgo. Hence, ZCCL continues to remain a net exporter. As only 40% of raw material procurement is imported, the foreign exchange outgo remains low. Also, the company follows a hedging policy wherein it hedges close to 100% of booked exposure due within 1 year and 25% due within 1+ years. ZCCL's hedging policy helps it to mitigate risk to that extent. Ability of the company to successfully manage its foreign exchange fluctuation risk remains critical from the credit perspective. ZCCL in FY22 made forex gain of Rs 0.1 Cr (FY21: gain of Rs 0.27 crore)

#### **Key rating strengths**

**Gradual contribution from completed capex:** ZCCL has set up a manufacturing unit in Bangladesh with total cost of Rs. 7.00 crores incurred till date with expenses incurred only in purchase of machineries and electrical installation. The funding was done through cash balance. The commercial production is scheduled from January 2023. The set-up unit would be able to reduce the cost and transit time for its export customers and hence is of strategic importance to ZCCL in increasing the sales volume. The expansion in installed capacity is scheduled to happen in phases. The current capacity of Bangladesh unit is 2500 pieces per day which will gradually increase to 10,000 pieces by FY25-FY26. As per the management, as the expansion is scheduled to proceed in three phases, Rs. 3.00 crores would be the funding for each phase. The funding of the upcoming capex would be either in form of cashflow from refunds that continued to remain with the government in form of refunds or the promoters would infuse the money to the extent.

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**Diversified geographical presence:** ZCCL has diversified geographical presence across India and across the globe. The company enjoys an established track record with its clients in the exports business. Out of the total revenue, export exposure is higher in total revenue. Following two years of declining trend in both domestic and export market, the company was able to achieve 50% and 26% revenue growth in domestic and export segment. Export continues to contribute more than 60% towards revenue. As on date, the company has 104 stores (FY21: 132 stores; FY20: 164 stores). The MBO's as on September 2022 have been reduced to 816 (FY22: 968; FY21: 1009). ZCCL continues to monitor the performance of the stores on half yearly basis, which enable them to close the non-performing stores and hence there is variation in no. of stores annually.

**Continuance of comfortable capital structure:** ZCCL's overall gearing continues to remain below unity with scheduled repayment of existing debt and no significant additional loans. 58% of total debt comprises of working capital limit, another 35% is that of lease liabilities and rest is ECLGS loan. With no major debt led capex plan of the company, the capital structure is expected to remain comfortable in near to mid-term.

#### **Liquidity: Adequate**

The liquidity of the company continues to remain adequate with its investment in Mutual Fund worth Rs. 17.87 crores in Mutual Fund as on September 14, 2022. In addition to this, ZCCL has investment of Rs. 10.59 crores in listed entities as on March 31, 2022. Moreover, the average maximum utilisation of fund-based limits (Rs. 50.00 crores) is comfortable at 73.20% for last twelve months ended August 31, 2022. ZCCL also has investment in private venture funds amounting to 37.84 crores as on March 31, 2022. This liquid investment continues to aid the liquidity profile of the company against the upcoming repayment of Rs. 10.64 crores and Rs. 17.80 crores for FY23 & FY24, respectively. The said repayment majorly includes lease payment while bank loan principal payment is Rs. 2.77 crores in FY23 & FY24. The cash and bank balance of the company stood at Rs. 9.27 crores as on March 31, 2022.

**Analytical approach:** Consolidated. The list of subsidiaries considered for consolidation is listed as Annexure 6

#### **Applicable Criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

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#### **About the Company**

Mr. M. Y. Noorani, the promoter of ZCCL, initially started the venture the House of Zodiac as a partnership firm in 1954, manufacturing neckties for men. The entity started exporting its products from 1960s and entered branded shirt business catering to the premium segment in 1970s. ZCCL was incorporated in 1984 and is currently operating in men's formal wear through its flagship brand, "Zodiac", in party/club wear through its sub-brand, "ZOD!", and in relaxed casual wear through its sub-brand, "Z3". These brands are licensed by ZCCL from its group company, Metropolitan Trading Company (MTC), a partnership firm that is 100% owned by the promoters under a perpetual licensing arrangement. MTC charges a

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royalty of 1% over the annual turnover from ZCCL. The readymade garments export business accounts for over 60% of its turnover (FY22). The domestic branded business is mainly routed through exclusive brand outlets (EBOs) and multi-brand outlets (MBOs). The stores of the company spread over in 40 cities (as on March 31, 2022) are mainly concentrated in tier-I cities, with the rest being spread across tier-II and III cities. ZCCL is engaged in cutting, stitching, washing, and pressing of fabric into apparels at its manufacturing facilities are located at Bengaluru, Karnataka and Umbergaon, Gujarat in India.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	100.45	126.76	40.60
PBILDT	-21.74	-16.51	-2.14
PAT	-29.38	-16.37	-6.79
Overall gearing (times)	0.35	0.30	NA
Interest coverage (times)	-2.21	-2.27	-0.50

A: Audited UA: Unaudited NA: Not available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	March 2025	57.21	CARE BB+; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	57.21	CARE BB+; Stable	-	1)CARE BB+; Positive (11-Oct-21)	-	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - Not Applicable**

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**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-5: Name of the companies consolidated with ZCCL**

Sr. No.	Subsidiary	Shareholding
		As on March 31, 2022
1	Zodiac Clothing Co. S.A	100%
2	Zodiac Clothing Co. (UAE) LLC.	100%
3	Zodiac Clothing Bangladesh Limited	100%
4	Zodiac Clothing Company INC	100%

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

**Contact us****Media Contact**

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**About CARE Ratings Limited:**

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the

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international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careedge.in](http://www.careedge.in)**

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