

## EarlSalary Services Private Limited

September 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	650.00 (Enhanced from 350)	CARE A-; Stable	Upgraded from CARE BBB+; Stable
Non-convertible debentures	100.00	CARE A-; Stable	Assigned
Non-convertible debentures	900.00	CARE A-; Stable	Assigned
Non-convertible debentures	217.04	CARE A-; Stable	Upgraded from CARE BBB+; Stable
Non-convertible debentures	75.00	CARE A-; Stable	Upgraded from CARE BBB+; Stable
Non-convertible debentures	300.00	CARE A-; Stable	Upgraded from CARE BBB+; Stable
Commercial paper	75.00	CARE A2	Reaffirmed
Issuer rating	0.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Revision in ratings of instruments/bank facilities of EarlSalary Services Private Limited (ESPL) consider adequate capitalisation at the parent level supported by recent capital infusion in Q1FY25 (refers to April 01 to June 30) of ₹547 crore through series E round, continuous increase in scale of operations leveraging rapid scalability of technology-based underwriting model, with growth in assets under management (AUM) to ₹4429 crore as on June 30, 2024, from ₹1963 crore as of March 31, 2023, with resultant improvement in profitability. On consolidated basis, the return on AUM improved to 3.56% in FY24 compared to 2.44% in FY23 (Q1FY25: 2.38%). Ratings also derive strength from experienced founders and management team.

However, ratings are constrained by relatively moderate track record of operations, moderate asset quality metrics characterised by higher write offs and evolving nature of the products in the personal loan segment where, robustness of the credit engine is yet to be established. CARE Ratings Limited (CARE Ratings) takes note of the inherent risk associated with exposure being predominantly to unsecured loan segment and regulatory risk associated with the digital lending space, where, regulations in the industry are still evolving.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improving profitability with return on AUM of at least 3.5% on a sustained basis.
- Improving asset quality metrics including write-offs on a sustained basis.
- Improving liability profile and cost of funds with larger share from banks.

#### Negative factors

- Expected/Visible signs of stress in asset quality with deteriorating asset quality metrics including gross non-performing assets (GNPA) over 4%, write-offs and lower collection efficiencies.
- Declining capital levels or deteriorating leverage with overall gearing of over 3x at consolidated levels.
- AUM to net worth exceeding 5x at consolidated levels.
- Adverse regulatory event/developments, impacting business risk profile, leading to significant downgrade.

### Analytical approach: Consolidated

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

CARE Ratings has taken a consolidated view of Social Worth Technologies Private limited (SWTPL) for assessing ESPL's financial position. This gives a better view, since SWTPL holds 100% of the NBFC (ESPL). Co-lending with partners take place from the parent. The list of the subsidiaries considered for consolidation is as per Annexure 6.

**Outlook: Stable**

The stable outlook reflects expectation of continued operational and technological support from its parent, SWTPL. The stable outlook also factors in maintenance of healthy business and financial parameters in the medium term.

**Detailed description of key rating drivers:****Key strengths****Adequate capitalisation supported by continuous record of mobilising capital**

ESPL's technology parent company SWTPL holds 100% stake in ESPL as on August 31, 2024. SWTPL's major investors include marquee investors including The Rise Fund (TPG), Norwest Capital LLC, Eight Roads, Chiratae Ventures, and Piramal Capital & Housing Finance Limited, among others. In May 2024, SWTPL raised ₹547 crore through Series E round at a valuation of ~US\$600 million. The round witnessed participation from existing investors such as TPG Capital, Norwest Venture along few other investors. Over the years, the cumulative capital infusion by investors in SWTPL reached ₹1532 crore till June 30, 2024. In FY24 and Q1FY25 the company has downstream ₹350 crore and ₹150 crore respectively to ESPL. Since inception, ESPL has raised ₹852 crore from SWTPL on a cumulative basis. This demonstrates the ability of the parent (SWTPL) company to garner funds from external investors and commitment of promoters towards growth of its business operations. The capital received from the parent company has helped ESPL maintain healthy capital cushions.

As on June 30, 2024, ESPL's capital adequacy ratio remained adequate at 28.07% (March 31, 2024: 27.22% and March 31, 2023: 26.42%) with overall gearing on a standalone basis at 1.99x as on June 30, 2024, against 2.00x as on March 31, 2024, and 2.75x as on March 31, 2023. At consolidated level, overall gearing stood at 0.91x as on June 30, 2024, as against 1.43x as on March 31, 2024, and 0.58x as on March 31, 2023. Improved gearing is considering the increase in equity capital supported by capital infusion through series E round in Q1FY25.

CARE Ratings expects that continuous support from external investors and founders to raise funds will help ESPL maintain capital levels and sustain growth in the near term.

**Improvement in scale of operations leveraging rapid scalability of technology-based underwriting model**

AUM reported growth from ₹1963 crore as on March 31, 2023, to ₹4064 crore as on March 31, 2024, which further increased to ₹4429 crore as on June 30, 2024. This is largely a result of a branchless model, as the lending process is primarily facilitated digitally through its mobile application, Fibe, with a majority of its credit risk underwriting processes – origination, risk assessment and disbursement being performed digitally. With minimal manual intervention, the company is able to streamline growth of its loan portfolio, while asset quality metrics are monitored by algorithms. ESPL largely competes with banks and other NBFCs in the personal loans segment with the company's borrower profile mainly leaning towards digitally savvy younger demographics, who require personal loans for home improvement, emergency purposes, medical emergency, skill upgrading courses, insurance, health expenses and so on. Consequently, technology provides a competitive edge over traditional banks, considering the loan process – from application to disbursal taking little time. The company has a pan-India presence for loans sanctioned in 30+ states and union territories with total 8,09,596 borrowers as on June 30, 2024. CARE Ratings notes that while technology has demonstrated its capacity for growth, the company's ability to keep a check on quality of loans being sourced will remain a key monitorable.

**Experienced management team**

Fibe group is co-founded by two professionals, Akshay Mehrotra (Cofounder and CEO) and Ashish Goyal (Cofounder and CFO) both possess more than two decades of experience together in the retail business and financial services. Akshay's previous experience has been in areas including strategic planning and marketing with some larger Indian brands. Akshay oversees implementation of the company's product strategy and is focused on building the business and ESPL as a Financial Institution. Ashish is a finance professional with over 19 years of experience spanning the entire gamut of finance including business finance/fund raising, risk management investment, treasury operations, risk management and strategic initiatives. Vimal Saboo, key CXO in ESPL has experience across credit decision making, formulating policies relating to sourcing, authorization center and analytics function in the Cards business.

In SWTPL, Anil Sinha, Chief Technology Officer, has delivered complex products in the space of distributed data processing, especially related to trade processing and risk analytics. Bala Subramaniam, Chief Products & Analytics Officer oversees the company's data analytics and data warehousing departments and leads all data analytics systems and ensures that the department aligns with the company's priorities.

### **Improvement in financial performance**

At a consolidated level, provisional financials of SWTPL reported net profits of ₹107 crore on a total income of ₹839 crore in FY24 as against profit of ₹36 crore on a total income of ₹429 crore in FY23 as a result of higher income resulting from growth in AUM. The Opex (on AUM basis) improved from 13.60% in FY23 to 10.84% in FY24 owing to higher operating efficiency due to economies of scale. The credit cost including service deficiency (on AUM basis) slightly improved from 8.89% in FY23 to 8.20% in FY24. Thus, the company was able to report a higher return on AUM (%) owing to the higher net interest margin (NIM) and lower credit cost in FY24 (3.56%) as against FY23 (2.44%). In Q1FY25, SWTPL's profitability improved with reported PAT of ₹25 crore on a total income of ₹273 crore with return on AUM of 2.38%. Going forward, with increase in disbursements, the ability of the parent and the NBFC to improve profitability while minimising credit cost will remain a key rating sensitivity.

At a standalone level, ESPL reported a higher PAT of ₹55.34 crore in FY24 as against a loss of ₹10.83 crore in FY23 on IND-AS basis (profit of ₹15.17 crore on I-GAAP basis). This was driven by a 172% increase in interest income on y-o-y basis in FY24 and higher processing fees recorded considering the book growth over the year and processing fees received on Managed book. ESPL's Opex (%) increased from 13.42% in FY23 to 15.72% in FY24 contributed by change in the model, expenses such as sourcing fees, employee cost have also increased at ESPL leading to increase in operating expense. Credit costs increased from 9.99% in FY23 to 11.23% in FY24. The company's credit cost also remains elevated due to higher write-offs. However, this remains inherent to the fintech industry. Thus, ROTA (%) improved from -1.20% in FY23 to 3.09% in FY24. Improvement in profitability in FY24 was due to higher revenue driven by scale in operations. In Q1FY25, ESPL's profitability improved with reported PAT of ₹22 crore on a total income of ₹223 crore with ROTA of 3.61%. Going forward, the company's ability to sustain profitability metrics with stable credit costs as the portfolio size increases, would be a key rating monitorable.

### **Key weaknesses**

#### **Moderate track record of operations**

ESPL has an operational track record of ~7 years with an AUM of ₹4429 crore as on June 30, 2024, growing substantially in the last few years. Due to moderate vintage, its asset quality performance through different economic cycles and geographies is yet to be established inducing a level of uncertainty. CARE Ratings observes that credit risk models based on data analytics and machine learning will continuously evolve both with time and with growth in portfolio.

#### **Moderate asset quality metrics, characterised by higher write-offs**

ESPL reported lower GNPA of 2.67% as on March 31, 2024, against 3.50% as on March 31, 2023, which increased to 3.20% as on June 30, 2024. However, the company has been able to control delinquencies in Q2FY25. The company's write offs stood higher, which remains inherent to entities operating in the unsecured lending segment. Credit costs (on a consolidated basis) as a percentage of average AUM marginally improved to 8.82% in FY24 against 8.89% in FY23 and subsequently continued to remain high at 8.92% in Q1FY25. ESPL has a provision coverage ratio of 55% as on March 31, 2024 (March 31, 2023: 46%). CARE Ratings observes that high credit cost is a key feature of the companies operating in the digital lending segment which reflects the yet-to-stabilise business and risk models. However, ESPL's borrower segment is the young salaried class with average monthly income in the range of ₹35k-50k. Going ahead, CARE Ratings will continue to monitor the asset quality metrics and the write-offs closely.

### **Regulatory risk**

Ratings also take note of regulatory risks associated with entities operating in digital lending as regulations are still evolving. There have been guidelines by RBI in this sector such as increase in risk weights by 25% for unsecured loans (November 16, 2023), pertaining to the FLDG structure (June 08, 2023) leading to multiple operational changes in the fintech industry. Digital lending entities are gaining momentum and size, and industry regulations also evolving, exposing the industry to regulatory risk. However, extent of impact for fintech players may vary depending on the business model followed. CARE Ratings will closely follow developments in this industry and consider taking appropriate rating action in case there are developments or modifications.

### **Liquidity: Adequate**

As on June 30, 2024, the company's asset liability mismatch (ALM) profile had no negative cumulative mismatches across time buckets. As on June 30, 2024, the company has cumulative outflows of ₹1255 crore up to one year, against which, it has contractual inflows of ₹ 2,165 crore. SWTPL holds an unencumbered cash and bank balance of ₹92.58 crore, and liquid investments totalling ₹274.14 crore. This results in a combined total liquidity of ₹366.71 crore as of June 30, 2024. As on June 30, 2024, the company has seven co-lenders live, which provides support its liquidity requirement for AUM growth. Average collection efficiency of the company for FY24 and Q1FY25 were 94.10% and 93.59% respectively

### Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

[Non Banking Financial Companies](#)

[Consolidation](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

#### Earllysalary Services Private Limited (ESPL):

Incorporated on September 06, 1994, ESPL (formerly known as Ashish Securities Private Limited), subsidiary of SWTPL, is a registered Non-Banking Financial Systematically Important Company (NBFC-SI), engaged in financing unsecured consumer loans for salaried individuals. These loans are usually advanced for meeting short- and medium-term liquidity needs of the borrower. As a lending business model, ES is highly scalable, enabled by use of automation and deployment of technology for underwriting and risk management. It has been able to limit its turnaround time to three minutes, with over 92% loans decided by its credit engine which was 70% around three years back as stated by the management. As on June 30, 2024, ESPL is 100% held by the parent SWTPL.

#### About SWTPL:

The holding company SWTPL is the entity through which, external investors route their funds for investment in ESPL. The entire technological back end, credit engine, borrower-facing front-end and the ES app are held in the books of SWTPL. Depending on the need for funds at the NBFC level, equity is further downstreamed to ESPL. SWTPL also provides FLDG to the off-book lenders, since interest income for these lenders is booked at the company. Fibe, in collaboration with Axis Bank, has also introduced a UPI-enabled Rupay Co- branded Credit Card exclusively for its customers (in the month of October 2023) to build its customer base.

#### On consolidated basis (SWTPL)

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	June 30, 2024 (UA)
Total income	428.92	839.26	272.64
PAT	36.33	107.25	25.23
Total assets	1,607.13	2757.43	3,102.09
Tangible net worth	947.49	997.31	1,575.82
ROTA (%) [On AUM basis]	2.44	3.56	2.38

A: Audited UA: Unaudited; total assets and tangible net worth are net of deferred tax and intangibles. Note: these are latest available financial results

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

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

### 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 and Rating Outlook
Debentures-Nonconvertible debentures	INE01YL07094	30-Dec-21	14.99%	31-Dec-24	25.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07102	31-Mar-22	14.66%	15-Dec-24	12.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07128	28-Mar-23	11.00%	05-Apr-25	10.71	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07144	28-Jun-23	10.86%	30-Apr-25	12.50	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07151	25-Jul-23	11.76%	28-Jan-25	56.67	CARE A-; Stable
Debentures-Nonconvertible debentures	Proposed	-	-	-	100.16	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07250	31-Jan-24	11.50%	05-Aug-25	50.00	CARE A-; Stable
Debentures-Nonconvertible debentures	Proposed	-	-	-	25.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07185	29-Sep-23	11.75%	29-Mar-26	56.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07177	14-Jul-23	11.75%	18-Mar-25	49.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07243	02-Sep-23	12.30%	20-Aug-25	21.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07219	30-Oct-23	11.73%	05-Nov-25	25.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07201	26-Oct-23	11.75%	27-Nov-25	15.63	CARE A-; Stable

Debentures-Nonconvertible debentures	INE01YL07193	31-Oct-23	11.75%	06-Nov-25	15.63	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07235	26-Dec-23	11.75%	26-Dec-25	50.00	CARE A-; Stable
Debentures-Nonconvertible debentures	INE01YL07276	25-Apr-24	11.50%	05-Nov-25	50.00	CARE A-; Stable
Debentures-Nonconvertible debentures	Proposed	-	-	-	17.74	CARE A-; Stable
Debentures-Nonconvertible debentures	Proposed	-	-	-	100.00	CARE A-; Stable
Debentures-Nonconvertible debentures	Proposed	-	-	-	900.00	CARE A-; Stable
Commercial Paper-Commercial Paper (Standalone)	INE01YL14090	08-Apr-24	12.75%	04-Oct-24	25.00	CARE A2
	INE01YL14116	24-Jul-24	11.25%	07-Nov-24	25.00	CARE A2
	Proposed	-	-	-	25.00	CARE A2
Fund-based - LT-Term loan	-	-	-	Mar 2027	650.00	CARE A-; Stable
Issuer rating- Issuer ratings	-	-	-	-	0.00	CARE A-; Stable

Note - INE01YL14074 and INE01YL14082 are redeemed

## Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non-convertible debentures	LT	217.04	CARE A-; Stable	1)CARE BBB+; Stable (05-Apr-24) 2)CARE BBB+; Stable (20-Oct-23)	1)CARE BBB+; Stable (10-Aug-23) 2)CARE BBB+; Stable (31-Mar-23)	1)CARE BBB+; Stable (05-Dec-22) 2)CARE BBB+; Stable (17-Mar-22)	1)CARE BBB; Stable (12-Oct-21) 2)CARE BBB; Stable (17-Mar-22)
2	Commercial paper-Commercial paper (Standalone)	ST	75.00	CARE A2	1)CARE A2 (05-Apr-24) 2)CARE A2 (10-Aug-23)	1)CARE A2 (20-Oct-23) 2)CARE A2 (05-Dec-22)	1)CARE A2 (31-Mar-23) 2)CARE A2 (05-Dec-22)	1)CARE A3 (17-Mar-22)

3	Fund-based-Long term	LT	650.00	CARE A-; Stable	1)CARE BBB+; Stable (05-Apr-24)	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (05-Dec-22)	1)CARE BBB; Stable (17-Mar-22)
4	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE A-(CE); Stable (05-Dec-22)	1)CARE BBB+ (CE); Stable (17-Mar-22) 2)CARE BBB+ (CE); Stable (29-Jul-21)
5	Unsupported rating	LT	-	-	-	-	1)Withdrawn (31-Mar-23) 2)CARE BBB+ (05-Dec-22)	1)CARE BBB (17-Mar-22)
6	Fund-based - LT-Term loan	LT	-	-	1)Withdrawn (24-May-24) 2)CARE A-(CE); Stable (05-Apr-24)	-	1)CARE A-(CE); Stable (27-Feb-23) 2)CARE A-(CE); Stable (30-Jun-22)	1)Provisional CARE A-(CE); Stable (30-Mar-22)
7	Unsupported rating-Unsupported rating (Long term)	LT	-	-	1)Withdrawn (24-May-24) 2)CARE BBB+ (05-Apr-24)	-	1)CARE BBB+ (27-Feb-23) 2)CARE BBB (30-Jun-22)	1)CARE BBB (30-Mar-22)
8	Debentures-Non-convertible debentures	LT	75.00	CARE A-; Stable	1)CARE BBB+; Stable (05-Apr-24)	1)CARE BBB+; Stable (20-Oct-23) 2)CARE BBB+; Stable (10-Aug-23)	-	-
9	Debentures-Non-convertible debentures	LT	300.00	CARE A-; Stable	1)CARE BBB+; Stable (05-Apr-24)	1)CARE BBB+; Stable (20-Oct-23)	-	-

10	Debentures-Non-convertible debentures	LT	100.00	CARE A-; Stable				
11	Debentures-Non-convertible debentures	LT	900.00	CARE A-; Stable				
12	Issuer rating-Issuer ratings	LT	0.00	CARE A-; Stable				

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable**

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Fund-based-Long term	Simple

**Annexure-5: Lender details**

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

**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	EarlSalary Services Private Limited	Full	100% owned subsidiary

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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