



Financial Ratios – Non-Financial Sector

Executive Summary

ACER Credit Rating Private Limited (ACER), a SEBI-registered credit rating agency, is committed to delivering independent and transparent opinions on issuer and credit ratings. ACER credit insights aim to empower investors, lenders, and businesses with opinions on ratings. With a clear vision to support India's economic growth story, ACER upholds the highest ethical and analytical standards, combining deep domain expertise, advanced analytics, and rigorous processes to ensure every rating is objective and insightful.

The Company reserves the right to amend this policy from time to time in accordance with the applicable regulations, circulars, and directives issued by the Securities and Exchange Board of India. This rating criteria will be reviewed annually.

Financial ratios constitute a critical analytical tool for assessing an entity's financial risk profile and form an integral part of the overall credit evaluation framework. Ratings assigned by ACER represent an informed and forward-looking opinion on relative creditworthiness and are based on a balanced assessment of quantitative and qualitative factors.

Financial ratio analysis is used to evaluate an entity's ability to generate sustainable earnings, maintain an appropriate capital structure, service its debt obligations in a timely manner, and manage liquidity across business cycles. Ratios facilitate comparison with industry peers, identification of structural strengths and weaknesses, and assessment of performance trends over time. However, ratios are not applied mechanically and are always interpreted in conjunction with business risk, industry conditions, management quality, regulatory environment, and financial flexibility.

ACER primarily considers audited standalone annual reports for analytical purposes, covering a 2–5-years trend evaluation, peer benchmarking, and forward-looking analysis based on financial projections. However, in certain cases depending on the group structure, business integration, or risk linkage, ACER also takes consolidated financial statements into account to capture the overall financial position and performance. Depending upon the complexity of the organisational structure, group support/ parent support taken into account relevant financial ratios will also be considered. In addition, quarterly financial results are reviewed, where available, to assess recent performance trends and near-term developments. Historical financials provide insight into the entity's track record and stability, while projected financials help evaluate the sustainability of cash flows and future debt-servicing capacity. Appropriate analytical adjustments are made to reported financial statements, wherever required, to ensure consistency and comparability across entities.

For analytical clarity, financial ratios are broadly categorised into growth, profitability, leverage and capital structure, coverage, liquidity, and efficiency ratios. The relevance and weight assigned



to each category varies depending on the broader sector, relevant business model, and stage of the operating or project cycle. Sector-specific ratios and benchmarks are applied where necessary to capture unique risk characteristics.

While financial ratios are powerful indicators of financial health and credit risk, they are subject to limitations arising from accounting policies, management judgment, and the inherent backward-looking nature of reported data. Accordingly, ACER places strong reliance on analytical judgment in totality and does not view any single ratio as determinative of assessment.

Overall, financial ratio analysis serves as a disciplined and transparent foundation for evaluating credit risk, supporting the CRA's objective of providing credible credit opinions to market participants and regulators.

This policy adheres to the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, and the latest SEBI Master Circular from time to time. This rating criteria will be reviewed annually and any regulatory changes will be addressed on need basis.

The policy aims to:

- Ensure consistency, transparency, and analytical rigor in financial ratio analysis
- Provide a structured approach to assessing Credit risk across sectors
- Clarify the role of financial ratios in the overall opinion on issuer/credit rating
- Serve as a reference document for all stakeholders including issuers, investors, and regulators.

Core Principles Governing Financial Ratio Analysis

Detailed Assessment

No single ratio determines opinion on issuer/credit rating. Ratings are based on a combination of ratios analysed together with business and qualitative factors.

Trend Analysis

Emphasis is placed on multi-year trends rather than point-in-time ratios to avoid distortions arising from one-off events, capex cycles, or temporary stress.

Peer Comparison

Ratios are evaluated relative to broader sector peers and industry benchmarks to ensure comparability in relative credit assessment

Forward-looking Orientation

Historical ratios are supplemented by realistic projections to assess sustainability of financial performance and future debt-servicing ability.

Standardized Adjustments



Reported financials are adjusted, where required, to ensure comparability across entities (e.g., treatment of hybrids, non-fund-based limits, intangibles, Deferred Tax Liability (DTL)/ Deferred Tax Asset (DTA)).

Classification of Financial Ratios

For analytical clarity, financial ratios are grouped into the following categories:

1. Growth Ratios
2. Profitability Ratios
3. Leverage and Solvency Ratios
4. Coverage Ratios
5. Liquidity Ratios
6. Efficiency / Turnover Ratios
7. Market Performance
8. Project Ratios

The relevance and weight of each category vary by broader sector and business model.

1. Growth Ratios

Growth ratios typically evaluate 2-5 years growth indicators such as revenue (sales) growth, operating profit growth, net profit growth, asset growth, net worth growth, and cash flow growth. Positive and consistent growth ratios may indicate improving market position, effective business strategy, and increasing capacity to generate earnings, while volatile or negative growth ratios may signal competitive pressures, execution challenges, or structural weaknesses in the entity.

ACER analyses these ratios to assess business sustainability, earnings visibility, and future debt-servicing capacity and capabilities.

Key ratios which include many others

- Growth in Revenue / Total Operating Income/ Operating Revenue
- Growth in EBITDA / Operating Profit
- Growth in PAT/ Net Profit

2. Profitability Ratios

Profitability ratios are financial metrics that measure a company's ability to generate sustainable profit from its sales, assets, and capital employed. They indicate how efficiently a business operates, how well it controls its costs, and how effectively it uses its resources to earn returns. These ratios help assess whether the company's operations are financially sustainable and are capable of timely repayments. ACER analyses profitability trends over 2-5 years and compares them with industry peers to understand cyclicity, sustainability, and vulnerability.

Key ratios which include many others

a) Operating Profit Margin



Operating Margin measures how efficiently a company generates profit from its core business operations, before the impact of interest, taxes, depreciation and amortization. Operating margin is calculated as Operating Profit (EBITDA) divided by Sales, expressed as a percentage. Operating profit is derived after deducting operating expenses from operating revenue. Operating expenses includes such as raw material costs, employee expenses, power and fuel, rent, repairs, administrative expenses, and selling and distribution costs, but excludes interest, taxes, depreciation, amortization and non-operating or extraordinary items.

b) Net Profit Margin

Net profit margin measures the overall profitability of a company by showing how much of its total revenue is converted into net profit after accounting for all expenses. It represents the final earnings available to shareholders and reflects the combined impact of operating efficiency, financing costs, taxation, and non-operating items. Net profit margin is calculated as Net Profit (PAT) divided by Sales, expressed as a percentage.

c) Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) is a profitability and efficiency ratio that measures how effectively a company uses its long-term capital to generate operating profits. It shows the return earned on funds invested by both equity shareholders and quasi capital and is a key indicator of overall business performance.

ROCE is calculated as Earnings Before Interest and Tax (EBIT) as a percentage of Capital Employed. Capital employed generally refers to total assets minus current liabilities or alternatively equity plus long-term debt.

ROCE is especially useful for comparing companies within the same industry and for analysing capital-intensive businesses, as it links profitability with the asset base. From an assessment perspective, a ROCE that is consistently higher than the cost of capital indicates value creation and financial strength, whereas a ROCE below the cost of capital signals value erosion and higher business risk.

d) Return on Total Assets (ROTA)

This is a profitability ratio that measures how efficiently a company uses its entire asset base to generate profits. It shows the earnings generated for every earning generated from total assets and reflects overall operational efficiency, regardless of how the assets are financed. ROTA is particularly useful when comparing companies within the same industry, especially asset-intensive sectors such as manufacturing, infrastructure, and logistics. Return on Total Assets is calculated as Adjusted PAT divided by Average Adjusted Total Assets.

3. Leverage and Solvency Ratios

Leverage and capital structure ratios explain how a company is financed and the extent to which it relies on debt versus equity. These ratios help assess the company's financial risk, solvency, and long-term stability by showing the proportion of borrowed funds in the overall capital base and the company's ability to sustain that leverage.



Key ratios which include many others

a) Debt-Equity Ratio

The Debt–Equity ratio is a key leverage and capital structure ratio that measures the proportion of a company's funding coming from borrowed funds (debt) compared to shareholders' funds (equity). It indicates the degree of financial leverage and helps assess the long-term solvency and financial risk of a business.

Equity constitutes for adjustments with respect to investments in subsidiaries, paid up preference share capital, revaluation reserve and more.

b) Total Debt to Adjusted Tangible Net Worth

This ratio measures the extent to which a company's net worth is used to support its total borrowings. It indicates the company's overall leverage and financial risk by showing how much amount of debt is outstanding for every amount of equity. Total debt to net worth is analysed along with profitability, cash flow adequacy, and debt servicing indicators.

Adjusted Tangible net worth is derived after making deductions of intangible assets and adjustments for reserves

C) Total Outside Liabilities to Adjusted Tangible Net worth

Total Outside Liabilities to Adjusted Tangible Net Worth (TOL / ATNW) is a key leverage and solvency indicator. It shows how much the company is dependent on external funds compared to its own real net worth. It measures the extent to which a company's operations are funded by outsiders (lenders, creditors) versus the promoters' tangible stake

4. Coverage Ratios

Coverage ratios are financial ratios that measure a company's ability to meet its fixed financial obligations from its earnings and cash flows. They indicate the margin of safety available to service commitments such as interest, principal repayments, and lease liabilities and are crucial for assessing a company's short-term and long-term debt servicing capacity.

Key ratios which include many others

a) Interest Coverage Ratio

The Interest Coverage Ratio (ICR) measures a company's ability to pay interest on its borrowings from its operating earnings. It indicates how many times the company's operating profit can cover its interest expense and is a key indicator of debt servicing capacity and financial risk. ACER closely monitors interest coverage over 2-5 years and compares with industry benchmarks. ACER calculates Interest Coverage Ratio as Adjusted EBITDA to Interest Cost

b) Debt Service Coverage Ratio (DSCR / Cash-DSCR)

The Debt Service Coverage Ratio (DSCR) measures a company's ability to service its total debt obligations, including both interest and principal repayments, from its operating cash flows. It indicates the adequacy of cash generation to meet scheduled debt commitments and is one of the most important ratios used by lenders and credit rating agencies.



DSCR is calculated as Cash Available for Debt Service divided by Total Debt Service, where cash available for debt service is generally represented by EBITDA less taxes or net operating cash flow, and total debt service includes interest expense plus principal repayments due during the period.

Debt Service Coverage Ratio (DSCR) is one of the most critical metrics assessed while evaluating infrastructure and project-based entities, as it directly measures the adequacy of cash flows to service debt obligations. DSCR is calculated on realistic financial projections as it depicts a borrower's future ability to service debt, not just its past performance. Projected DSCR directly influences debt structuring and rating comfort

5. Liquidity Ratios

Liquidity ratios measure a company's ability to meet its short-term obligations using its short-term assets. They indicate how easily a business can convert assets into cash to pay creditors, suppliers, and other current liabilities as they fall due, and therefore reflect the company's short-term financial health and working capital position.

These ratios compare current assets such as cash, bank balances, receivables, marketable securities and inventories with current liabilities like trade payables, short-term borrowings, and other obligations due within 12 months. Common liquidity ratios include the current ratio, which shows overall short-term solvency, and the quick (acid-test) ratio, which focuses on the most liquid assets by excluding inventories. Higher liquidity ratios indicate better ability to meet near-term obligations and provide a safety buffer against cash flow mismatches, while low ratios suggest potential liquidity stress, delays in collections, or over-reliance on short-term borrowings.

ACER analyses these ratios along with cash flow patterns, working capital cycles, and bank limit utilisation. Adequate and stable liquidity supports timely debt servicing and operational continuity, whereas weak or volatile liquidity ratios are viewed as a credit weakness, especially for businesses with seasonal cash flows or high working capital requirements

Key ratios which include many others

- Current Ratio
- Quick Ratio
- Cash and Bank Balances
- Unutilised Bank Lines
- Debt Maturity Profile

6. Efficiency and Turnover Ratios

Efficiency and turnover ratios measure how effectively a company utilizes its assets and working capital to generate sales and cash flows. They indicate the speed at which resources such as inventory, receivables, and payables are converted into revenue or cash and reflect the operational efficiency of the business.

Key ratios which include many others

- Inventory Days



- Receivable Days
- Payable Days
- Asset Turnover

7. Market Performance

Market performance ratios assessment helps to evaluate how well a company is positioned in its industry and how the market perceives its earnings quality, growth prospects, and risk profile. The ratios provide supplementary insights into business strength, access to capital, and resilience across cycles especially for listed entities.

Key ratios which include many others

a) Price-to-Earnings (P/E) Ratio

Price-Earnings (P/E) Ratio reflects how much investors are willing to pay for each unit of a company's earnings. The P/E ratio is calculated by dividing the market price per share by the earnings per share (EPS). It indicates the valuation placed by the market on the company's current earnings and, indirectly, on its future growth prospects and perceived risk. It is used to understand market perception, earnings quality, and financial flexibility.

b) FII Movement

Foreign Institutional Investor (FII) movement refers to the inflow and outflow of investments by foreign institutions such as mutual funds, pension funds, hedge funds, and sovereign wealth funds into a country's equity and debt markets.

FII movement is not a direct input into individual corporate ratings but is an important macro and market context indicator. Persistent FII inflows enhance overall market depth and refinancing flexibility especially for large listed corporates and infrastructure sponsors that rely on capital markets. Sharp or prolonged outflows on the other hand can stress equity markets elevate borrowing costs and indirectly weaken the financial flexibility of highly leveraged or market-dependent entities

c) Shareholding pledged

Shareholding pledged refers to the portion of a promoter's or major shareholder's equity shares that are offered as collateral to lenders in order to raise loans or secure credit facilities. In this arrangement, ownership of the shares remains with the promoter, but the lender gets the right to invoke and sell the shares if the borrower defaults or breaches agreed terms.

Promoter share pledging is analysed as it provides important insight into the financial strength, liquidity position, and risk appetite of the promoter. A high level of pledged shares often indicates that the promoter has relied on equity collateral to raise funds which may reflect limited internal liquidity or high leverage at the promoter or group level. This can increase the risk of contagion especially if the funds raised are used to support stressed group entities

8) Project related ratios



Project-related ratios are critically important as they directly measure the cash-flow strength, financial sustainability, and risk profile of a specific project, especially in infrastructure and project-finance structures where debt repayment depends primarily on the project's own cash flows rather than on the balance sheet of the sponsor. Unlike generic corporate ratios, project-related ratios are forward-looking and closely aligned with the actual sources of debt servicing, making them central to rating assessment.

Key ratios which include many others

a) Loan Lifecycle Tenor vs Cashflow Generation.

This is an important concept in project finance and infrastructure ratings to assess whether the tenure of debt is appropriately aligned with the period over which the project generates stable cash flows. This alignment is critical because infrastructure assets typically have long economic lives but cash flows may be uneven across different phases of the project lifecycle.

It is important to assess that the loan tenor, moratorium, and repayment schedule are structured in a manner that coincides with the project's cash flow profile rather than front-loading repayments when cash flows are still ramping up.

b) Project IRR

Project IRR (Internal Rate of Return) represents the discount rate at which the net present value (NPV) of a project's cash flows becomes zero, and it is a key indicator of the overall economic and financial viability of a project. It captures the return generated by the project over its entire lifecycle, considering the timing of capital investment, operating cash inflows, and terminal value or concession expiry.

Sector-Specific Application

Financial ratio relevance and benchmarks vary across:

- Manufacturing
- Services
- Infrastructure
- Project finance

Sector-specific criteria supplement these criteria where required.

Governance and Review

- Financial ratio frameworks shall be reviewed periodically
- Methodological updates shall be documented and disclosed
- Analysts shall apply ratios consistently and transparently

Conclusion

Financial ratio analysis forms a core and structured foundation of the credit assessment framework, enabling the evaluation of an entity's financial strength, risk profile, and debt-servicing capability in a consistent and transparent manner. By analysing ratios across growth, profitability, leverage, coverage, liquidity, efficiency, market performance, and



project-specific dimensions, understanding of both historical performance and future sustainability is formed. However, ratios are not viewed in isolation; they are interpreted alongside qualitative factors, sector characteristics, and forward-looking realistic projections. This balanced approach ensures that credit opinions reflect not just numerical indicators but also underlying business realities, supporting credible and well-informed rating outcomes for stakeholders.