RATING RATIONALE

25 March 2021

Alchemist Asset Reconstruction Company Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities/ Non-Convertible Debentures of Rs. 200 Crs. of Alchemist Asset Reconstruction Company Limited

Particulars:

Instruments / Facilities**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2020)	Present (Reaffirmation)
Fund Based	100.00	**100.00**	Long Term	BWR A- (Stable)	**BWR A- (Stable)**
NCDs	100.00	**100.00**	Long Term	BWR A- (Stable)	**BWR A- (Stable)**
Total	**200.00**	**200.00**	**Rs. Two Hundred Crs. Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank Loan Facilities and NCDs are provided in Annexure-I & II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed the ratings of the bank loan facilities and non-convertible debentures of Alchemist Asset Reconstruction Company Limited (AARCL). The rating reaffirmation factors in the experienced board and management, regular recoveries and redemption, and stable financial performance, marked by adequate profitability and a comfortable gearing. The rating, however, is constrained by high exposure to the real estate and hospitality segments, stiff competition from other Asset Reconstruction Companies (ARCs) and volatility in cash flows because of the unpredictability of the resolution of underlying assets.

The Stable outlook indicates the low likelihood of a rating change over the medium term. BWR believes that AARCL's business risk profile would remain unchanged over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced board and management:** AARCL is promoted by Mr. Alok Dhir, a lawyer and chartered accountant with more than three decades of experience in the financial-cum-legal aspects of Non-Performing Assets (NPAs) and distressed asset restructuring, rehabilitation, and international lending. AARCL also receives support and strategic guidance from Mr Alok Dhir on various issues. AARCL also gets financial support from promoters, as well as other investors, in the form of Inter Corporate Deposits (ICDs), Compulsory Convertible Debentures (CCDs) and other instruments. He is the managing partner of Dhir & Dhir Associates, a law firm in India.

- **Regular recoveries and redemptions:** Recoveries are increasing on a Y-O-Y basis. During 9MFY21 (Provisional), the company recovered Rs.140.46 Crs against Rs. 99.33 Crs in FY20 and Rs. 124.03 Crs in FY19. Redemptions have also increased in the last few years. During 9MFY21 (Provisional), the company redeemed Security Receipts (SRs) of Rs.76.37 Crs as against Rs. 62.34 Crs in FY20 and Rs. 64.68 Crs in FY19. During the last three-year period, the company reported regular recoveries and redemptions. The recoveries for trusts acquired during the initial phase until 2011-12 are above 99%. However, the recovery percentage for the trusts acquired during recent years is on the lower side as these trusts are relatively new.

- **Stable financial performance and comfortable gearing:** AARCL's financial profile is stable, marked by adequate profitability and a comfortable gearing. The total debt/ tangible net worth was at 0.50 times as on 31 December 2020 against 0.73 times as on 31 March 2020 and 0.99 times as on 31 March 2019. The profit before tax was at 25.67 Crs as on 31 December 2020, as against Rs. 11.39 Crs as on 31 March 2020 and Rs. 24.60 Crs as on 31 March 2019.

Credit Risks:

- **High exposure to real estate, hospitality, and other industry segments**: AARCL's exposure to the real estate and hospitality segments as a percentage of the Assets Under Management (AUM) as on 31 December 2020 was 28% and 16%, respectively. The top four industries accounted for 69% of the total AUM as on 31 December 2020. Even with the top four industries, exposure is concentrated towards a few large accounts.

- **Stiff competition and volatility of cash flows:** Many ARCs are registered in India, and with an increase in the number of players in the stressed asset market, competition is on the rise. Larger entities may offer stiff competition to smaller/ mid-sized entities, given the change in the model of ARCs to more cash-based buying, compared largely with a security-receipts-based model adopted earlier. Despite having an adequate asset acquisition and resolution policy framework, AARCL will continue to face challenges, given the inherent nature of the asset reconstruction business and ARC industry. Since the resolution of stressed assets is subject to a variety of factors, recoveries may not always be as expected. AARCL's earnings profile is volatile because of unpredictable recoveries from acquired assets, given the nature of its business.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Upward: Steady growth in acquisitions, along with a continuity of resolution from the assets purchased in the past would be positive for AARCL.

Downward: Delayed acquisition and resolutions of assets or a sharp rise in the gearing may be negative for AARCL.

LIQUIDITY INDICATORS: Adequate

Liquidity is adequate, given the moderate bank limit utilisation and adequate net cash accrual in FY20 and 9MFY21. The company had Rs. 0.27 Crs cash and equivalent as on 22 March 2021. Moreover, the company is in the process of selling a few assets, which will provide further liquidity. Additionally, ICDs from group companies are a major source of funding.

COMPANY PROFILE

Incorporated in September 2002, Alchemist Asset Reconstruction Company Limited (AARCL) was granted a License/Certification of Registration by the Reserve Bank of India on 15 March 2007 as a securitisation and reconstruction company under the SARFAESI Act. The company commenced its operations on 18 June 2007. AARCL is involved in the business of securitisation and asset reconstruction, which consists of acquiring NPAs/distressed assets, resolving the assets and creating value in the process. The ARC is presently dealing with over 45 banks and financial institutions.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20	9MFY21
Result Type		**Audited**	**Audited**	**Provisional**
Total Income	Rs in Crs	37.39	31.63	32.85
PAT	Rs in Crs	17.42	8.28	25.67 (PBT)
Tangible Net Worth	Rs in Crs	149.26	160.99	186.66
Total Debt : Tangible Net Worth	Times	0.99	0.73	0.50
CRAR	%	39.91%	44.05%	53.63%

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating*	Date(s)& Rating(S) assigned in year T-1 (28-Feb-20)	Date(s) & Rating(s) assigned in Year T-2 (28-Mar-19)	Dates(s) & Rating(s) Assigned in Year T-3 (17-Oct-18)
1	NCD	Long Term	100.00	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)
2	BLR	Long Term	100.00	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)
			200.00				

**BWR issued Rating Advisory on 1 March 2021*

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Banks and Financial Institutions

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Alchemist Asset Reconstruction Company Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	**OD**	**25.00**	**0.00**	**25.00**
2	Proposed Fund Based- OD	75.00	0.00	75.00
Total Rs. One Hundred Crs only.				**100.00**

ANNEXURE II

INSTRUMENT (NCDs) DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate	Maturity Date	ISIN Particulars
NCD Proposed	-	100.00	-	-	-
Total	**-**	**100.00**	**-**	**-**	**-**

ANNEXURE III

List of entities consolidated : NA

For print and digital media

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