



Rating Rationale

Alchemist Asset Reconstruction Company Limited

28 March 2019

Brickwork Ratings assigns the ratings for the Non-Convertible Debentures Issue of ₹. 100.00 Crores and reviews the Bank Loan Rating of Alchemist Asset Reconstruction Company Limited.

Particulars

| Instrument | Issue Date | Previous Amount (₹ Crores) | Present Amount (₹ Crores) | Coupon | Tenor | ISIN Particulars | Rating* |
|--------------------|------------|----------------------------|---------------------------|--------|---------|------------------|--|
| Proposed NCD/Bonds | - | NA | 100.00 | 12.50 | 5 Years | - | BWR A- (Pronounced as BWR Single A Minus (Outlook:Stable) |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

| Facilities# | Amount (Rs Crs) | Amount (Rs Crs) | Tenure | Rating ¹ | |
|--------------|-----------------|-----------------|---------------------------------------|--|--|
| | Previous | Present* | | Previous (17 Oct 2018) | Present |
| Fund based: | 100 | 100 | Long term | BWR A- [Pronounced as BWR Single A Minus] (Outlook: Stable) | BWR A- [Pronounced as BWR Single A Minus] (Outlook: Stable) [Reaffirmation] |
| Total | 100.00 | 100.00 | Rupees One Hundred Crores Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings



Rating Assigned/Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18, publicly available information and information/ clarifications provided by the Company's management.

The rating takes into consideration the domain knowledge of the management team, steady growth in AUM and significant recoveries & acquisitions made during FY18 and 9MFY19, ability to strike a balance for the appropriate resolution strategy for maximizing results, satisfactory financial & operational performance during FY18 marked by comfortable debt service ratios, strong profitability margins and low gearing; Furthermore acquisition of assets is diversified across different industries, for achieving strong IRR levels. The rating, however, is constrained by risks arising out of adverse developments in the policy framework, as distressed asset market in India is still at a nascent stage and volatility of the cash flows generated from the unpredictable schedules of NPA resolution & delays in recoveries from acquired assets due to legal enforcement of security.

Going forward, the ARC's ability to sustain the growth in AUM & business volumes along with timely and efficient resolution of distressed assets will remain key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Growth in Asset Under Management** - The ARC's AUM has increased to Rs 1524.73 Crs in FY18 as compared to Rs 1019.14 Crs in FY 17 and further increased to Rs. 1713.77 Crs til 9MFY19.
- **Growth in recoveries & acquisition:-** Recoveries for the trusts acquired during initial phase till 2011-12 is above 95%. Recovery percentage for the trusts acquired during recent years is on lower side as these trusts are relatively new and there is time for trusts to mature. In absolute terms, recoveries are increasing Y-O-Y basis. During FY18 the Company recovered Rs. 112.27 Crs. against Rs 37.21 Crs during FY17. For 9MFY19 the company recovered Rs. 59.37 Crs and as per the management, good amount of recovery is expected during Q4FY19.
- **Improving financial performance during FY18** - The ARC's financial profile is satisfactory marked by comfortable debt service ratios, strong profitability margins and low gearing; Total debt/ tangible net worth is comfortable at 0.49 times as on March 31, 2018. The tangible net worth is comfortable at Rs 131.85 Crs. The operating and PAT margins were strong at 75.37% and 44.32% respectively for FY18.
- **Diversified Investments with strong IRR-** AARCL has a diversified portfolio in terms of exposure to various sectors. Exposure wise top sectors include Hospitality, Energy & Textile.



This mitigates the risk in investments. This has also assisted the ARC in achieving an IRR of ~25% on its resolutions.

- **Emerging opportunities:** The ARC has emerging opportunities for acquiring assets through the IBC route, as well as through Leveraged Buyout (LBO). These, if handled properly, can prove productive.

Credit Risks:

- **Asset quality challenges inherent in the industry-** The ARC faces the industry risks arising out of adverse developments in the policy framework, as distressed asset market in India is still at a nascent stage. Despite having adequate asset acquisition and resolution policy framework, AARCL will continue to face challenges, given the inherent nature of the asset reconstruction business and the ARC industry as a whole.
- **Volatility of the cash flows generated from the unpredictable schedules of NPA resolution-** Since 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. Also, the enforcement of security for legal resolution of accounts may take a longer period of time, which may slow down the recovery process to some extent.

Analytical Approach

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

Rating Outlook: *Stable*

BWR believes the **Alchemist Asset Reconstruction Company Limited** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Incorporated in Sept 2002, Alchemist Asset Reconstruction Company Limited ('AARCL') was granted License/Certification of Registration by the Reserve Bank of India on 15th March, 2007 as a Securitisation and Reconstruction company under the SARFAESI Act. The Company commenced its operations on 18th 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. Alchemist is amongst the first Asset Reconstruction Companies in the private sector



to be granted a license by the RBI. The ARC is presently dealing with over 45 banks and Financial Institutions. It has diversified portfolio across all the major industries.

The Company has been sponsored by highly qualified professionals. It has an experienced Board and is managed by an experienced executive team having wide and specialized exposure in the field of resolution of distressed assets, reconstruction of sick industrial units and legal and financial restructuring.

Mr. Alok Dhir is the Sponsor Director. Mr. Sasi Madathil and Mr. Pratip Chaudhari (ex-Chairman, SBI) are the Independent Directors, Mr. Sanjiv Gupta is the Non-Independent Director and Mr. Anshuman Malur is the Nominee Director. All the Directors are highly experienced in resolving the issues related to Asset Reconstruction & Securitization

Company Financial Performance

AARCL reported operating income of Rs. 26.56 Crs with a PAT of Rs. 11.77 Crs in FY18 against an operating income of Rs. 13.97 Crs with a PAT of Rs. 6.51 Crs during FY17.

Rating History for the last three years

| S.No | Instrument /Facility | Current Rating (2019) | | | Rating History | | |
|-----------|---|-----------------------|----------------|--|--|--|--|
| | | Type | Amount (₹ Crs) | Rating | 2018 October | 2017 October | 2017 July |
| | Fund Based | | | | | | |
| 1. | Proposed NCD | Long Term | 100.00 | BWR A- (Pronounced as BWR Single A Minus) (Outlook: Stable) [Reaffirmation] | NA | Na | NA |
| 2. | Proposed/ Existing Fund Based Bank Loan Facility | | 100.00 | | BWR A- (Pronounced as BWR Single A Minus) (Outlook: Stable) | BWR BBB+(Pronounced as BWR Triple B Plus) (Outlook: Stable) | BWR BBB+(Pronounced as BWR Triple B Plus) (Outlook: Stable) |
| | Total | | 200.00 | ₹ Two Hundred Crores Only | | | |

Status of non-cooperation with previous CRA (if applicable)-NA

Key Financial Indicators

| Key Parameters | Units | 2017 | 2018 |
|-------------------------------|-------|---------|---------|
| Result Type | | Audited | Audited |
| Operating Revenue | ₹ Cr | 13.97 | 26.56 |
| EBITDA | ₹ Cr | 9.69 | 20.01 |
| PAT | ₹ Cr | 6.51 | 11.77 |
| Tangible Net worth | ₹ Cr | 120.08 | 131.85 |
| Total Debt/Tangible Net worth | Times | 0.36 | 0.49 |
| Current Ratio | Times | 3.14 | 2.07 |

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Security Receipts](#)

For any other criteria obtain hyperlinks from website



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



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