



Rating Rationale

08 April 2022

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

Instrument/ Facility	Previous Amount (Rs. Crs.)	Present Amount (Rs. Crs.)	Tenure	Previous Rating (25-Mar-21)	Rating*
Fund Based#	100.00	100.00	Long Term	BWR A- (Stable)	BWR A- (Stable)
NCD's**	100.00	100.00	Long Term	BWR A- (Stable)	BWR A- (Stable)
Total	200.00	200.00	Rupees Two Hundred Crores Only		

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

#Details of bank facilities rated are provided in Annexure-I.

** Details of bonds rated are provided in Annexure-II.

**Company has not raised any NCD till date. While the NCDs were proposed to be issued in FY22, the same was delayed due to Covid. As per discussions with the Company, the NCD issue is expected to be floated during FY23.

#Out of the previously rated Rs. 100 Crs Overdraft (OD) limit, the company has been sanctioned an OD limit of Rs. 25 Crs from Union Bank of India (erstwhile Andhra Bank). The outstanding against the OD limit was Rs. 23.78 Crs as on 31 December 2021. However the enhancement is proposed to be completed in FY23.

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, 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 COVENANTS OF THE INSTRUMENT/FACILITY RATED: N/A



DESCRIPTION OF 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. Mr. Dhir 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 9MFY22 (Provisional), the company recovered Rs.85.54 Crs against Rs. 99.53 Crs in FY21 and Rs. 99.33 Crs in FY20, Redemptions have also increased in the last few years. During 9MFY22 (Provisional), the company redeemed Security Receipts (SRs) of Rs.52.43 Crs as against Rs. 76.37 Crs in FY21 and Rs. 62.34 Crs in FY20. 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 0.70 times as on 9MFY22 against 0.50 times as on 9MFY21 and 0.68 times as on FY21. The profit before tax was at 10.41 Crs as on 31 December 2021, as against Rs. 12.45 Crs as on 31December 2020 and 13.57 crores for FY21.

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 2021 was 28.72% and 15.05%, respectively. The top four industries accounted for 67.93% of the total AUM as on 31 December 2021. Even with the top four industries, exposure is concentrated towards a few large accounts.

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 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

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 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 POSITION - ADEQUATE

Liquidity is adequate, given the moderate bank limit utilization and adequate net cash accrual in FY21 and 9MFY22. The company had Rs. 4.62 Crs cash and equivalent in FY21, and 0.50 Crs in 9MFY22 compared to 0.10 Crs in 9MFY21. 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 and recurring source of funding.

ABOUT THE COMPANY

AARCL is a Company Incorporated in 2002, licensed by RBI in 2007 and amongst the First Private Sector Asset Reconstruction Companies. It is engaged in acquisition of distressed financial assets from Banks/ Financial Institutions for resolution of the stress and recovery. AARCL is promoted by Mr. Alok Dhir and family. As on 31 Dec 2021, Mr. Dhir and Family and close associates hold a 59.17% stake in the company with DMI Finance pvt ltd being the other key shareholder with an equity stake of 11.97%.

The promoter group has supported the company with ICDs. The ICDs as on 31 Dec 2021 were Rs.53.73Cr.

Additionally, the Company has obtained CCDs of Rs. 24 Cr. from the Shapoorji Pallonji Development Managers Pvt. Ltd in FY19. These are at 0% rate of interest, convertible into equity instruments after 5 years which is extendable for further 3 years.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20	FY21
Result Type		Audited	Audited	Audited
Total Income	Rs. Crs	37.39	31.63	36.69
PAT	Rs.Crs	17.42	8.28	13.57
Tangible Net Worth	Rs.Crs	149.26	160.99	174.56
Total Debt :Tangible Net Worth	Rs. Crs	0.99	0.73	0.68
CRAR	%	39.91	44.05	48.29



NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): N/A

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(2022)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount Outstanding (Rs. Crs)	Rating (31-Mar -2022)	2021 (25- Mar -21)	2020 (28-Feb-20)	2019 (28-Mar-19)
1	NCD	Long Term	100	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)
2	BLR	Long Term	100	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)
	Total		200	Rupees Two Hundred Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks Financial Institutions](#)

Analytical Contacts	
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**ANNEXURE I:
Details of Bank Loan Facilities rated by BWR:**

Sl.no	Types 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	Rupees One Hundred Crores Only			100.00

**ANNEXURE II:
INSTRUMENT (Bonds) DETAILS**

Sl.no	Instrument	Issue Date	Amount (Rs. Crs.)	Coupon Rate	Maturity Date	ISIN Particulars
1	NCD -Proposed	-	100.00	-	-	-
Total			100.00	Rupees One Hundred Crores Only		

**ANNEXURE III
List of entities consolidated: N/A**



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