

Rating Rationale

Alchemist Asset Reconstruction Company Limited (AARCL)

17 Oct 2018

Brickwork Ratings revises rating to 'A-' for the bank loan facilities of Rs 100.00 Crs of Alchemist Asset Reconstruction Company Limited ('AARCL' or the 'Company')

Particulars:

Facilities#	Amount (Rs Crs)	Amount (Rs Crs)	Tenure	Rating ¹	
	Previous	Present*		Previous (26-Oct-2017)	Present
Fund based:					
Secured Overdraft/ Cash Credit	25.00	27.00	Long term	BWR BBB+ (Pronounced BWR Triple B Plus) [Outlook: Stable]	BWR A- [Pronounced BWR A Minus] (Outlook: Stable) Upgraded
Proposed Secured overdraft/ Cash Credit	75.00	48.00			
Term Loans	-	25.00			
Total	100.00*	100.00	Rupees One Hundred Crores Only		

#Annexure I shows details of bank loan facilities

¹ Please refer to BWR website www.brickworkratings.com for definition of the ratings assigned.

Ratings Upgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18, H1FY19 Provisionals, publicly available information and information/ clarifications provided by the Company's management.

The upgrade of ratings takes into consideration the domain knowledge of the management team, growth in AUM and significant recoveries & acquisitions made during FY18, ability to strike a balance for the appropriate resolution strategy for maximizing results, satisfactory financial & operational performance during FY18 & H1FY19 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.

Rating Outlook: Stable

BWR believes **Alchemist Asset Reconstruction Company Limited (AARCL)**'s 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.

Key rating drivers

Experienced management- There management team has extensive experience in the asset reconstruction business.

Growth in AUM supported by continuous growth in recoveries & acquisition - The ARC's AUM has increased to Rs 1524.73 Crs in FY18 as compared to Rs 1019.14 Crs in FY 17. AARCL has a good recovery track record from distressed assets. Security Receipts amounting to Rs 538.13 Crs were issued during 2017-18. During FY18, the ARC has recovered around Rs 112.27 Crs from 53 accounts as on March 31 2018 and expects higher realizations in Q4 FY19.

Improving financial performance during FY18 & H1FY19- 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, and the trend appears to continue for the current year also.

Diversified Investments with strong IRR- AARCL has a highly diversified portfolio. This mitigates the risk in investments. This has also assisted the ARC in achieving an IRR of ~29% on its resolutions.

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

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 variety of factors, the 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).

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 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. Anshuman Malur is the Nominee Director. All the Directors are highly experienced in resolving the issues related to Asset Reconstruction & Securitization.

The broad details of performance in the last three years (Audited) and Q1FY19 (Unaudited) are as under:

Particulars	FY16 (Audited)	FY17 (Audited)	FY18 (Audited)	Q1FY19 (Unaudited)
Number of selling Banks/FIs	10	11	10	2
Number of accounts acquired	18	29	23	2
Cost of Acquisition (Rs Crs)	393.48	383.79	538.13	34.70
No of accounts recovered	39	30	53	33
Amount Recovered (Rs Crs)	58.22	37.21	112.27	24.24
AUM (Rs Crs)	656.39	1019.14	1524.73	1556.54
SRs issued (Rs Crs)	393.48	383.79	538.13	34.70

Ratings of the SRs- CRA & rating assigned	Most of the trusts have been rated RR1 and above	Most of the trusts have been rated RR1 and above	93.30% of rated SRs are rated RR1 and above	97.16% of rated SRs are rated RR1 and above
---	--	--	---	---

The Company’s AUM has increased to Rs 1524.73 Crs in FY18 as compared to Rs 1019.14 Crs in FY 17. Security Receipts amounting to Rs 538.13 Crs were issued during 2017-18. The ARC has been following the policy of balancing the resolution strategies depending upon the type of asset acquired, for maximizing the recoveries.

Financial Performance

Total Operating income improved to Rs 26.56 Crs in FY18 from Rs 13.97 Crs in FY17. PAT also improved to Rs 11.77 Crs in FY18 from Rs 6.51 Crs in FY17 mainly owing to adoption of better recovery methods. During FY18, Operating income of Rs 26.56 Crs comprised of incentive remuneration (Rs 0.16 Crs), Trustee or management fees (Rs 14.56 Crs), Profit on resolution/ Settlement of financial assets (Rs 11.43 Crs) and other income on recovery of impaired SRs (Rs 0.45 Crs). During 2017-18, around 74% of their redemptions have been through Enforcement of security interest. Outstanding debt stood at Rs 64.00 Crs. Short term borrowings of Rs 64.00 Crs in FY18 comprised of cash credit limits (Rs 24.99 Crs) and Intercorporate deposits from body corporate (Rs 25.50 Crs). These ICDs are taken from an NBFC (JFC Finance India Ltd) and it shall be repaid by the Company out of the proceeds of the redemption of security receipts and therefore are classified as short term borrowing. The remaining are unsecured intercorporate loan from Corporate/ Directors (Rs 7.50 Crs and Rs 6.00 Crs).

Net Owned Funds stood at Rs 131.85 Crs as on March 31 2018. Total debt/ Net Owned Funds was comfortable at 0.49 times as on March 31 2018. The debt protection metrics (ISCR: 7.92 times; DSCR: 5.66 times), profitability margins (PAT margins: 44.32%; Operating profit margin: 75.37%), liquidity ratio (Current ratio: 2.07 times) and cash accruals were at satisfactory levels during FY18. The investment (AARC net contribution) in Security Receipts (SRs) increased from Rs 158.87 Crs in FY17 to Rs. 246.62 Crs in FY18.

On a provisional basis, the ARC has reported total operating income of Rs 10.21 Crs for H1FY19 as against Rs 6.44 Crs for H1FY18. The key financial indicators are summarized in Annexure II.

Status of non-cooperation with other CRA: Not applicable.

Any other information: Not applicable.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (2018)			Rating History		
		Tenure	Amount (Rs Crs)	Rating recommendation	26-Oct-2017 [^]	17-Jul-2017 [^]	2016
1.	Fund based Limits: Existing Proposed	Long term	52.00 48.00	BWR A- [Pronounced BWR A Minus] (Outlook: Stable) Upgraded	BWR BBB+ (Stable) Reaffirmed*	BWR BBB+ (Stable) Assigned	-
	Total		100.00**	Rupees One Hundred Crores Only			

[^]Amount rated: Rs 25.00 Crs; ^{^^}Amount rated: Rs 100.00 Crs

Hyperlink/Reference to applicable Rating Criteria

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

Analytical Contacts	Media
Vidya Shankar Chief General Manager- Ratings analyst@brickworkratings.com	media@brickworkratings.com
	Relationship Contact bd@brickworkratings.com
Phone: 1-860-425-2742	

Alchemist Asset Reconstruction Company Limited (AARCL)

Annexure I: Details of the bank facilities rated

Name of the Bank/ FIs	Nature of Facility	Present Limit (Rs Crs)	Proposed Limits (Rs Crs)
Andhra Bank	Secured Overdraft	25.00	-
Lakshmi Vilas Bank*	Term Loan	25.00	-
	Secured Overdraft	2.00	
Proposed limits under discussion with various banks	Over Draft	-	48.00
Total		52.00	48.00
Rated Limits		100.00	

*The Limits sanctioned by Lakshmi Vilas Bank are yet to be availed.

Note: At the time of last rating in Oct 2017, SBI had sanctioned Rs 25 Crs of cash credit limits and remaining Rs 75 Crs were the proposed bank limits. Now, the SBI have been closed and the Banker has also given a No dues letter in this regard.

Currently, the Company has received a sanction of term loans of Rs 25 Crs from Lakshmi Vilas Bank and Rs 27 Crs of Overdraft Limits [Rs 25 Crs of overdraft limits are sanctioned by Andhra Bank and Rs 2 Crs of Overdraft limits are sanctioned by Lakshmi Vilas Bank]. The ARC is also in talks with multiple banks for proposed limits of Rs 48 Crs.

Alchemist Asset Reconstruction Company Limited (AARCL)

Annexure II

Key Financial Parameters

Particulars	31/Mar/2017	31/Mar/2018
Result Type	Audited	Audited
Total Operating Income (Rs Crs)	13.97	26.56
EBITDA (Rs Crs)	9.69	20.01
PAT (Rs Crs)	6.51	11.77
Net Owned Funds (Rs Crs)	120.08	131.85
Total Debt/TNW (Times)	0.36	0.49
Current ratio (Times)	3.14	2.07

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.



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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.