



Rating Rationale

Alchemist Asset Reconstruction Company Ltd (AARCL)

26th Oct 2017

Brickwork Ratings reaffirms 'BWR BBB+' for the enhanced bank loan facilities (existing and proposed) of Rs 100.00 Crs of Alchemist Asset Reconstruction Company Ltd ('AARCL' or the 'Company')

Particulars:

Facilities Rated#	Amount (Rs Crs)	Amount (Rs Crs)	Tenure	Rating ¹	
	Previous	Present #		Previous	Present
Fund based:					
Cash Credit	25.00	100.00*	Long term	BWR BBB+ (Pronounced BWR Triple B Plus) [Outlook: Stable]	BWR BBB+ (Pronounced BWR Triple B Plus) (Outlook: Stable) Reaffirmed
Total	25.00	100.00	INR One Hundred Crores Only		

*Includes existing limits of Rs 25 Crs and Proposed Limits of Rs 75 Crs. The Company has applied for additional bank limits of Rs 75 Crs to various Banks (including SBI). The above rated proposed limits of Rs 75 Crs are yet to be sanctioned.

Existing Bank - State Bank of India

¹For definitions of the rating symbol please visit our website www.brickworkratings.com

Rating Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY17, publicly available information and information / clarifications provided by the Company's management.

The rating reaffirmation factors the domain knowledge of the management team, significant recoveries made during FY17, satisfactory financial performance during FY17 & H1FY18 marked by comfortable debt service ratios, strong profitability margins and low gearing; Furthermore investments are diversified across different industries. 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.

Going forward, the Company's ability to sustain the growth in 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 Ltd'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

Credit Strengths

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

Satisfactory recoveries and acquisition- The Company's AUM has increased to Rs 1019.14 Crs in FY17 as compared to Rs 656.39 Crs in FY 16. Security Receipts amounting to Rs 383.79 Crs were issued during 2016-17. During H1FY18, the Cost of Acquisition stood at Rs. 172.80 Crores and the ARC has acquired 8 accounts as on 30th Sep 2017. The Company has recovered around Rs 15.70 Crs as on 30th Sep 2017 and expects highest realizations in Q4 FY18.

Satisfactory financial profile- The ARC's financial profile is satisfactory marked by comfortable debt service ratios, strong profitability margins and low gearing; Furthermore investments are diversified across different industries. Total debt/ tangible net worth is comfortable at 0.36 times as on March 31, 2017. The tangible net worth stood at Rs 120.08 Crs as on March 31, 2017. The operating and PAT margins were strong at 69% and 46% respectively for FY17.

Credit Risks/ Weaknesses

Industry risks- The Company 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.

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.

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 30 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, Mr. Pratip Chaudhari and Mr. S. L. Kapur are the Independent Directors. Mr. Anshuman Malur is the Nominee Director and Mr. Sanjiv Gupta is the Non-Independent Director.

The broad details of performance in the last three years and FY18 (Projected) are as under:

Particulars	FY15 (Audited)	FY16 (Audited)	FY17 * (Audited)	FY18 (Projected)
Number of selling Banks/FIs	8	10	11	15
Number of accounts acquired	10	18	17	25
Cost of Acquisition (Rs Crs)	90.66	393.48	383.79	700.00
No of accounts recovered	10	39	30	45
Amount Recovered (Rs Crs)	14.07	58.30	36.93	200.00
AUM (Rs Crs)	300.88	656.39	1019.14	1541.51
SRs issued (Rs Crs)	90.66	393.48	383.79	700.00
Ratings of the SRs- CRA & rating assigned	Most of them are RR1 and above	Most of them are RR1 and above	Most of them are RR1 and above	Will be rated as and when required

**Audited business performance of F17 in in line with Provisional business performance shared with BWR earlier at the time of initial rating in July 2017*

The Company's AUM has increased to Rs 1019.14 Crs in FY17 as compared to Rs 656.39 Crs in FY 16. Security Receipts amounting to Rs 383.79 Crs were issued during 2016-17. The Company applies all three modes of resolution – One Time Settlement (OTS), Restructuring and Enforcement of security – for recovery from the acquired assets. During 2016-17, around 83% of their recoveries have been through OTS. During H1FY18, the Cost of Acquisition stood at Rs. 172.80 Crores and around 8 accounts had been recovered. The Company has recovered ~ Rs 15.70 Crs as on 30th Sep 2017, while the maximum realizations are expected to come in the last quarter of the financial year.

Financial Performance

The Audited Financial performance of FY17 is in line with provisional financials for FY17 shared with BWR earlier and there are no material/ significant changes being observed.

Total Operating income improved to Rs 13.79 Crs in FY17 from Rs 10.61 Crs in FY16. PAT also improved to Rs 6.51 Crs in FY17 from Rs 2.97 Crs in FY16 mainly owing to adoption of better recovery methods. During FY17, Operating income of Rs 13.97 Crs comprised of incentive remuneration (Rs 0.29 Crs), Trustee or management fees (Rs 8.43 Crs), Profit on resolution/ Settlement of financial assets (Rs 5.05 Crs) and other income on recovery of impaired SRs (Rs 0.07 Crs). During FY17, the Company's focus was largely on OTS. Outstanding debt stood at Rs 17.60 Crs and additional ICDs of Rs 25.50 Crs



were raised as on March 31, 2017 (Audited). Tangible net worth stood at Rs 120.08 Crs as on March 31, 2017. Total debt/ tangible net worth was comfortable at 0.36 times as on March 31, 2017. The debt protection metrics, profitability margins, liquidity ratio and cash accruals were at satisfactory levels during FY17.

On a provisional basis, the ARC has reported total operating income of ~ Rs 20 Crs for H1FY18. The Key Financial parameters are summarized in Annexure I.

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

Any other information: Nil

Rating History for the last three years:

Sl. No.	Instrument/ Facility	Current Rating (2017)			Rating History		
		Tenure	Amount (Rs Crs)	Rating	17-July- 2017*	2016	2015
1	Fund based Limits: Cash Credit	Long term	100.00	BWR BBB+ (Stable) Reaffirmed	BWR BBB+ (Stable) Assigned	-	-
	Total		100.00	INR One Hundred Crores Only			

*Amount rated: Rs 25.00 Crs

Hyperlink/Reference to applicable Rating Criteria

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

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Alchemist Asset Reconstruction Company Ltd

Annexure I

Key Financial Parameters

Particulars	31/Mar/2016	31/Mar/2017
Result Type	Audited	Audited
Total operating income (Rs Crs)	10.62	13.97
EBITDA (Rs Crs)	4.69	9.69
PAT (Rs Crs)	2.97	6.51
Total Debt (Rs Crs)	25.50	43.10
Tangible Net Worth (Rs Crs)	113.57	120.08
Total Debt/TNW (Times)	0.22	0.36
Current Ratio (Times)	22.12	3.14

For print and digital media

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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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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