

Rating Rationale

Brickwork Ratings revises the Rating for the Bank Facilities of ₹ 50 Cr to 'BWR BBB-' for Asset Care and Reconstruction Enterprises Limited.

Brickwork Ratings (BWR) has revised the **Rating**¹ to **BWR BBB-** (BWR Triple B Minus), with a Stable Outlook from **BWR BBB** for the Working Capital Facilities of Asset Care and Reconstruction Enterprises Limited (ACRE) sanctioned by Punjab National Bank.

Facility	Limits (₹ Cr)	Tenure	Rating
<u>Fund Based- Overdraft</u>	50.00	Long Term	BWR BBB- (BWR Triple B Minus) Outlook: Stable

BWR has principally relied upon ACRE's audited financial results and information/clarifications provided by the company,

The rating revision takes into account delay in infusion of equity fund, leading to deterioration in financial performance of the company. The rating nevertheless continues to factor in the strong institutional shareholdings, composition of company board, and moderate capitalization levels. The rating, however, remains constrained on account of limited track record of the operations, risk arising out of adverse development in the policy framework, volatility of the cash flows generated from the unpredictable schedule of NPA resolution and top 10 NPA accounts constituting about ~78.35% of the total portfolio

Background

Asset Care and Reconstruction Enterprises Ltd. was incorporated in June 2002 under the name of Asset Care Enterprises Ltd. The company was renamed Asset Care and Reconstruction Enterprises Ltd (ACRE) in November, 2010. Leading Banks and Financial institutions are the key shareholders of the company. As on March, 2013 IFCI Ltd and Punjab National Bank respectively held 37.91% and 30% of the equity shares. ACRE is engaged in the business of acquiring non-performing assets from banks and financial institutions after getting the license from RBI in October, 2003 to operate as a Securitization/Reconstruction company under the provision of Section 3 of SARFAESI Act, 2002. The Company started its operations in July 2007

Operations and Portfolio

ACRE's portfolio increased from ₹150.7Cr as of March 2012 to ₹174.11Cr on March, 2013. Top ten NPA accounts constitutes about ~78.35% of the total portfolio. Hence, credit concentration of the portfolio is high in terms of exposure to top ten cases.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Although ACRE has acquired assets across industries the share of Textiles (35%), Minerals (18.95%), paper (14.33%), engineering (12.46%).

Board of Directors

The Board of Directors of ACRE comprises of highly qualified and experienced personalities from the field of Finance, Banking and Law. Amongst the prominent independent Directors are Mr. Jagdish Kapoor who served as the Former Deputy Governor of RBI and was on the board of directors for State Bank of India and Housing Development Finance Corporation, and Mr- M.S. Aftab - Former Executive director of Vijay Bank.

Key personnel of the company are well experienced in the field of restructuring and reconstruction of NPAs and Management of stressed financial asset.

Financial Profile

For FY13, income from operations declined to ₹21.57cr in line Profit After Tax declined to ₹2.76cr in FY13 compared to ₹8.24cr in FY12. Tangible net worth declined to ₹40.03cr for FY13 from ₹63.61 in FY12 as share application money was withdrawn in FY13.

Capitalisation:

Capitalization level of the company stood at 22.1% which is moderate for the current scale of operations. Though, it will need additional capital to scale of operations and to further meet the regulatory capital adequacy requirements.

Rating Outlook

Successful completion of planned equity infusion and the ability to sustain the growth in business volume along with timely and efficient resolution of distressed asset will be the key rating sensitivities.

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