

## Rating Rationale

### Brickwork Ratings revises the rating for the Bank Facilities of INR 50.00 Crores for Asset Care and Reconstruction Enterprises Limited

Brickwork Ratings (BWR) has revised the **Ratings<sup>1</sup>** to **BWR BBB** (Pronounced BWR Triple B), with a stable outlook **from BWR BBB-** (Pronounced BWR Triple B Minus) for the working capital facilities of Asset Care and Reconstruction Enterprises Limited (ACRE) sanctioned by Punjab National Bank.

Facility	Limits (Rs. Cr)	Tenure	Rating
<b>Fund Based- Overdraft</b>	<b>50.00</b>	<b>Long Term</b>	<b>BWR BBB</b> <i>(Pronounced BWR Triple B)</i> <b>Outlook-Stable</b>

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

The rating revision takes into account the support from "SSG Capital Management" extended by acquiring 49% stake in ACRE.

The rating continues to factor in the strong institutional shareholdings, composition of company board, and moderate capitalization levels.

The rating, however, continues to remain 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.

### 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

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

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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

### **Business Model**

ACRE targets medium and lower end segment Non-Performing Assets (NPAs) in terms of ticket size having per client exposure of minimum ₹ 50 lakhs and maximum 100% of the net worth of ACRE or ₹ 100 Crores, whichever is lower. It seeks to purchase stressed assets and non-performing assets from Banks/FIs which the company expects to be resolved in about one to three years. ACRE's business model focuses on acquiring NPA accounts where promoter/borrower has arrived at a settlement with the bank. The Company acquires the loan assets after paying the settlement amount. The acquired assets are resolved either by Settlement of dues payable by the borrower or Rescheduling of payment of Debts or Enforcement of security interest by taking possession of the secured and Sale thereof or by Filing recovery application before DRT/Civil courts depending on the peculiarities of each case and adopting other legal measures as available under law.

### **Operations and Portfolio**

ACRE started its operations in July 2007. The company has increased its operations over the period and has acquired assets worth ₹ 417Cr as of September 2014 over ₹ 174.11Cr March 2013. Credit concentration of the portfolio is high in terms of asset acquired across industries such as Hospitality contributing 59% and textile contributing 14%.

### **Significant Development**

Singapore-based "SSG Capital Management", a distress and special-situation private equity fund, picked up a 49% stake in Asset Care and Reconstruction Enterprise Ltd (ACRE) in September 2014. SSG Group specialises in distressed and special situation investments. The induction of SSG will help ACRE augment capital base through which it would be able to participate more actively in the sale of Non-Performing Assets and to acquire large value transactions.

### **Capitalisation:**

ARCs with net worth of less than ₹ 100 Crores are required to maintain capital adequacy of 15% on an ongoing basis. Capitalization level of the company stood at 54.2% which is quite high than minimum CAR of 15% as stipulated by RBI.

Though, it will need additional capital to scale of operations and to further meet the regulatory capital adequacy requirements.

### **Financial Profile**

For FY14, income from operations declined to Rs17.14cr compared to Rs21.57cr in FY13 on account of decline in acquisition of financials assets due to inadequacy of capital funds. Income from operations stood at Rs15.91Cr as September 2015 with PAT at ₹ 7.53cr.

## Rating Outlook

With the current trend in the growth of NPA in Bank and Financial institutions, there is an ample scope for growth in business and revenue. However the ability to sustain the growth in business volume along with timely and efficient resolution of distressed asset along with regular infusion of equity will be the key rating sensitivities.

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