



RATING RATIONALE

14 December 2021

Assets Care & Reconstruction Enterprise Limited

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs. 130 Crs. of Assets Care & Reconstruction Enterprise Limited

Particulars:

Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2020)	Present
Fund Based	105.00	130.00	Long Term	BWR A/Stable	BWR A+/Stable (Upgraded)
Total	105.00	130.00	Rs. One Hundred and Thirty Crs. Only/-		

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

** Details of Bank Loan Facilities/NCD/Bonds/Commercial Paper are provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has upgraded the rating on the bank loan facilities of Rs.130 Crs of Assets Care & Reconstruction Enterprise Limited (ACRE or the company) to 'BWR A+' /Stable, as tabulated above. The rating draws comfort from the company's improved financial risk profile and recovery metrics, experienced management, and adequate liquidity. The rating is, however, constrained by risk associated with the ARC business in terms of volatility in the recovery, redemption of SRs and profitability, among others.

BWR believes that the business risk profile of the company shall be maintained over the medium term. The outlook of the company may be revised to 'Positive' in case of more than expected improvement in the financial risk profile and business and improvement in the capital structure. The outlook may be revised to 'Negative' in case of lagged recoveries and cash flows and deterioration in the debt protection metrics.

KEY COVENANTS OF THE FACILITY RATED: NA

KEY RATING DRIVERS

- **Credit Strengths:-**

Experienced management team: The company has been in the asset reconstruction business for more than a decade and has shown a good track record of recovery and redemption during the last three years. The company is led by an experienced senior management team consisting of seasoned industry professionals with vast experience in the asset management business, and supported by an experienced board of directors. ACRE's board of directors currently has 7



members, with 4 independent members and 2 nominee directors (nominees of SSG Capital, Axis Bank), and the head, Ms. Neeta Mukherjee, the Whole Time Director and CEO of ACRE. She has over three decades' experience in premier financial institutions

Comfortable capitalisation: The company had a net worth of Rs. 420.79 Crs as on 31 March 2021 on account of profit accretion while authorized share capital of the company is Rs. 750 Crs. The company is adequately capitalized, with a Capital to Risk Weighted Assets Ratio (CRAR) ratio of 19.88% as on 31 March 2021 (18.58% as on 31 March 2020), which will support the company's future Asset Under Management (AUM) growth. Furthermore, the company is looking to raise the fund through equity as well as debt in FY22 and FY23, which is expected to further strengthen the company's capital position over the near to medium term. ACRE's gearing had improved to 3.01 times as on 31 March 2021, from 3.76 times as on 31 March 2020.

Improved financial performance: The total income of the company stood at Rs. 257.63 Crs for FY21 (FY20: Rs. 240.15 Crs) while the profitability stood at Rs. 87.29 Crs (FY20: Rs. 101.22 Crs). The company's AUM stood at Rs. 8539.24 Crs as on 31 March 2021 which has dropped from Rs. 10682.62 Crs as on 31 March 2020 on account of improvement in the recoveries and redemption. . During FY21, the company acquired assets of Rs 689.65 Crs, recovered around Rs. 2696.53 Crs and redeemed around Rs. 2333.03 Crs. During H1FY22, the company did an acquisition of Rs. 1660.58 Crs, a recovery of Rs. 888.4 Crs and redemptions of Rs. 765.06 Crs. The company reported a total income of Rs. 142.55 Crs, with a profit after tax of Rs. 35.76 Crs during H1FY22. The financial performance and ability of the company to increase profitability and fasten resolutions shall remain monitorable.

- **Credit Risks:-**

Risk associated with ARC business: The ARC faces industry risks arising from adverse developments in the policy framework as the distressed asset market in India is still at a nascent stage. ACRE, though is one of the largest ARCs in India, will continue to face challenges, given the inherent nature of the asset reconstruction business and ARC industry as a whole. Since the resolution of stressed assets is subject to a variety of factors, recoveries may not always be as expected. ACRE's earnings profile is volatile because of unpredictable recoveries from acquired assets. With an increase in the number of players in the stressed asset market, competition is on the rise. Large and small players may give stiff competition, given the change in the model of ARCs to involve more cash-based buying, compared largely with a security-receipts-based model adopted earlier.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has derived this rating based on the standalone performance of ACRE.



RATING SENSITIVITIES

Positive: More than expected growth in the business and profitability along with timely resolution of assets acquired will be rating positive.

Negative: The delayed resolution of assets and a deterioration in asset quality or capitalisation, and limited acquisition will be key monitorables.

LIQUIDITY INDICATORS: ADEQUATE

Liquidity is adequate, given Rs. 17.46 Crs in cash and bank balance as on 30 September 2021. Against the liquidity, the company has no stipulated repayments during H2FY22. Moreover, the company follows the liquidity policy under which it maintains one quarter's liquidity to fulfill the requirement of operating expenses, interest payment and statutory dues. Furthermore, the company collects regular monthly income from the existing trust as management fees, incentives and recoveries. A large portion of ACRE's debt consisted of interest-free debentures. Additionally many of the debentures have a unique structure that can allow the extension on the maturity if no amount is recovered out of the trust which was given as security against the debentures.

COMPANY PROFILE

Asset Care & Reconstruction Enterprises Ltd (ACRE), a public limited company, was incorporated in June 2002 under the name of Asset Care Enterprises Ltd. The company was renamed Asset Care & Reconstruction Enterprise Ltd (ACRE) in November 2010. The company was granted a license by the RBI in October 2003 to operate as a securitisation/reconstruction company under the provision of Section 3 of the SARFAESI Act, 2002, but it started operations in July 2007. ACRE is engaged in the acquisition of non-performing assets from banks/FIs and their resolution as per the guidelines issued by the RBI. SSG Capital Management (Singapore) Pte. Ltd is the key shareholder, with a 49% stake in the company.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY20	FY21
Result Type		Audited (As per IND AS)	Audited (As per IND AS)
Total Income	Rs in Crs	240.15	257.63
Profit After Tax	Rs in Crs	101.22	87.29
Networth	Rs in Crs	352.08	420.79
Gearing	Times	3.72	3.01
AUM	Rs in Crs	10682.62	8539.21

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY:NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs.Crs.)	Rating	6-Nov-20	4-Nov-19	11-Oct-18
Fund Based	Long Term	130.00	BWR A+/Stable	BWR A/Stable	BWR A/Stable	BWR A-/Stable
Total		130.00	Rs. One Hundred and Thirty Crs. Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Security Receipts](#)

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Assets Care & Reconstruction Enterprise Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Punjab National Bank	Overdraft	75.00	0.00	75.00
2	Federal Bank	Overdraft	7.48	0.00	7.48
3	Federal Bank	Cash Credit	15.00	0.00	15.00
	Proposed Bank Loans		32.52	0.00	32.52
Total Rupees One Hundred and Thirty Crs. only					130.00

ANNEXURE II

INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS: NA

ANNEXURE III List of entities consolidated: NA

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