

RATING RATIONALE

4 Nov 2019

Assets Care & Reconstruction Enterprises Ltd.

Brickwork Ratings Revises the ratings for the Bank Loan Facilities of ₹. 105.00 Crores of Assets Care & Reconstruction Enterprises Ltd.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Oct 2018)	Present (Oct 2019)
Fund based	105.00	105.00	Long Term	BWR A-Stable	BWR A Stable [Upgrade]
Total	105.00	105.00	INR One Hundred Five Crores Only		

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

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Rating upgrade considers improvement in the overall financial profile of the company during FY19 over FY18. The company reported multifold increase in profitability backed by considerable increase in assets under management. With more than Rs. 6000 Crs of acquisition during last year, the company was amongst the top buyers of stressed assets during the year FY19. The company was backed by 14 internationals as well as domestic QIBs to acquire various assets during the year. The company further raised capital of Rs. 70.77 Crs during FY19 which is majorly subscribed by existing shareholders to fund the acquisitions. Also, the management has invested in improving overall infrastructure including IT/MIS systems, disaster recovery management etc. The company also set up its Mumbai office which at present has a team of 7 – 8 personal. The company has also added space in Delhi region as well.

The rating is, however, constrained by risks arising out of any adverse developments in the policy framework as distressed asset market in India is still at a nascent stage. Rating is also constrained by volatility of the cash flows generated from the stressed assets that are highly

unpredictable in nature. Also, with the government pushing banks to resolve assets through NCLT route, it is going to add to the already existing fierce competition in the industry.

The '**Stable**' outlook indicates a low likelihood of rating change over the medium term. The company has been growing gradually over the years and with the planned acquisition of around Rs. 4000 Crs, the same is expected to continue in the future as well. With the presence of huge amount of stressed assets in the economy, ARCs are in the advantageous position to gain maximum from the current scenario.

KEY RATING DRIVERS

Credit Strengths:

- **Significant improvement in financial parameters:** Backed by successful resolution of some of the large accounts, total operating income of the company improved from Rs. 59.83 Crs in FY18 to Rs. 168.50 Crs in FY19. PAT increased by more than 300% to Rs. 41.37 Crs in FY19 from 9.75 Crs during the previous year. The company has also reported considerable improvement in profitability indicators such as ROA, ROCE etc. ROA for the company improved from 1.87% in FY18 to 3.82% in FY19. The company further raised capital of Rs. 70.77 Crs during FY19 which is majorly subscribed by existing shareholders and with the same adjusted leverage of the company came down from 0.73 times as on 31st March 2018 to 0.52 times as on 31st March 2019. (Adjusted leverage is calculated excluding non-interest bearing, non-principal protected portion of debt). As some of the assets are nearing resolution, the company is also expected to report good numbers in the current fiscal as well.
- **Backing from some of the influential investors:** The company enjoys backing from several international as well as domestic investors. The company acquired more than 6800 Crs of debt during FY19 which was majorly backed by QIBs. In total, QIBs invested around Rs. 5000 Crs whereas banks in total invested ~Rs 600 Crs and remaining was invested by the ARC itself. The company also has plans to acquire around Rs. 4000 Crs of debt during FY20 as it is in a comfortable situation as far as funds are concerned.
- **Strengthening of infrastructure:** During FY19, the company also invested in strengthening IT/MIS system, disaster recovery management etc. The company opened their second office in Mumbai which has a team of around 7 – 8 employees and also taken additional space on rent in Delhi as well. The Mumbai office is also responsible for maintaining backup of all the files.

Credit Risks:

- **Asset quality challenges inherent in the industry:** ACRE is engaged in the acquisition of Non-Performing Assets from Banks/FIs and their resolution as per the guidelines issued by



Reserve Bank of India. The company faces asset quality-related challenges as cashflow of the company is only from stressed assets, which is highly unpredictable.

- **Unseen market conditions and policy framework:** There could be a risk arising out of adverse developments in the policy framework as distressed asset market in India is still at a nascent stage.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has principally relied upon the audited financials upto FY19, projected financial statements, publicly available information and information/clarifications provided by the Company.

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).

RATING SENSITIVITIES

Going forward accelerated recoveries through resolution of stressed assets, increase in AUM, meeting projections and ensuring timely servicing of debt would be the key rating sensitivities.

Positive: The Rating may be upgraded in case the company demonstrates substantial recovery from the acquired assets creating value for all stakeholders with simultaneous growth in assets under management while keeping leverage under comfortable range.

Negative: The rating may be downgraded in case the company achieves lower than expected recovery traction from the assets or if it fails to raise fresh capital on a timely basis to acquire fresh assets.

LIQUIDITY POSITION - ADEQUATE

The company has adequate liquidity as indicated by cash and bank balance of Rs. 10.58 Crs as on 31 March 2019. The company is also backed by several influential investors which also provide comfort as far as fresh acquisition is concerned. The company is also waiting for proceeds from some of the cases where resolution is already in place and the recovery is awaited.

About the Company

Asset Care and Reconstruction Enterprises Ltd (ACRE) a public limited company was incorporated in June 2002 under the name Asset Care Enterprises Ltd. The company was renamed as Asset Care and Reconstruction Enterprise Ltd (ACRE) in November 2010. The company was granted a license by RBI in October 2003 to operate as a Securitization/Reconstruction company under the provision of Section 3 of 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 Reserve Bank of India. Till date the company has acquired debt of more than 26,000 Crs. As on 31st March 2019, total



acquisition of the company stood at 10,396 Crs with an outstanding AUM of Rs. 9,353 Crs. SSG Capital Management (Singapore) Pte Ltd. is the key shareholder holding 49% share in the company.

KEY FINANCIAL INDICATORS (in ₹ Cr)

The company reported Operating Income of Rs. 168.50 Crs with a PAT of Rs. 41.37 Crs in FY19. Against an operating income of Rs. 59.83 Crs with a PAT of Rs. 9.75 Crs.

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
AUM	₹ Cr	3153	9353
Operating Revenue	₹ Cr	59.83	168.50
PAT	₹ Cr	9.75	41.37
Tangible Net worth	₹ Cr	160.93	255.73
ROCE	%	5.89%	12.70%
ROA	%	1.87%	3.82%
Adjusted Leverage	Times	0.73x	0.52x

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

There are no such covenants having any bearing on the credit rating of the company.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY - NA

RATING HISTORY

S.No	Instrument /Facility	Current Rating (Oct 2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	2018 Oct	2017 June	2016 April
1.	Overdraft	Long Term	105.00	BWR A Outlook Stable [Upgrade]	BWR A- Outlook: Stable	BBB+ Outlook: Stable	BBB+ Outlook: Stable
	Total		105.00	₹ One Hundred Five Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financials Institutions](#)

For any other criteria obtain hyperlinks from website

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Assets Care & Reconstruction Enterprises Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	Federal Bank	Long Term	30.00	-	30.00
2.	Punjab National Bank		75.00	-	75.00
TOTAL					105.00

Total Rupees One Hundred Five Crores Only.



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