



## RATING RATIONALE

6 November 2020

### Assets Care & Reconstruction Enterprises Limited

### Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of Rs. 105 Crs. of Assets Care & Reconstruction Enterprises Limited

#### Particulars:

Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2019)	Present (Reaffirmed)
Fund Based	105.00	105.00	Long Term	BWR A/Stable	BWR A/Stable
<b>Total</b>	<b>105.00</b>	<b>105.00</b>	<b>Rs. One Hundred and Five Crs. Only/-</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://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 reaffirmed the rating on the bank loan facilities of Rs.105 Crs of Assets Care & Reconstruction Enterprises Limited (ACRE or the company) at 'BWR A'/Stable, as tabulated above. The rating draws comfort from the company's experienced management, comfortable capitalisation and stable financial performance. The rating is, however, constrained by concentration in terms of high-ticket-size investments and risk associated with the ARC business in terms of volatility in the recovery, redemption and profitability, among others.

#### 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. The management is also 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, Mr. R.P. Singh, the MD and CEO of ACRE. He has over four decades' experience, with the majority in stressed assets management.

**Comfortable capitalisation:** The company had a net worth of Rs. 352.08 Crs as on 31 March 2020, supported by cash accruals and equity infusion by existing shareholders during FY19. The company is adequately capitalised, with a Capital to Risk Weighted Assets Ratio (CRAR) ratio of 18.58% as on 31 March 2020 (15.11% as on 31 March 2019), 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 during FY21 and FY22, which is expected to further strengthen the company's capital position over the near to medium term. ACRE's gearing had improved to 3.72 times as on 31 March 2020, from 4.29 times as on 31 March 2019.

**Stable financial performance:** The company has shown steady growth in the AUM, income and profitability during FY21. The company's AUM grew to Rs. 10690.19 Crs as on 30 September 2020 and Rs. 10682.62 Crs as on 31 March 2020 (Rs. 9308.17 Crs as on 31 March 2019). The company reported an income of Rs. 240.15 Crs in FY20 (FY19: Rs 171.40 Crs) and a profit after tax of Rs. 101.24 Crs (FY19: Rs.81.56 Crs). During FY20, the company acquired assets of Rs 2448.85 Crs, recovered around Rs. 1318.07 Crs and redeemed around Rs. 1163.99 Crs. During H1FY21, the company did an acquisition of Rs. 167.19 Crs, a recovery of Rs. 199.71 Crs and redemptions of Rs. 159.62 Crs. The company reported a total income of Rs. 125.69 Crs, with a profit after tax of Rs. 43.27 Crs during H1FY21. Due to the COVID-19 impact, the first half of the year showed muted growth for the company. However, management fees, which constitute regular income, supported the cash flow in the business. Due to COVID-19, the company has seen limited opportunity in the market in terms of acquisition and also limited recoveries due to lockdown. The company's ability to grow the business and performance during H2FY21 will be a key monitorable.

- **Credit Risks:**

**Concentration in terms of high-ticket-size investments:** In recent years, the company has done a few high-ticket-size investments totaling Rs 6481 Crs (ACRE's share was Rs. 972 Crs, which is 15% of the total investments). The top 25 investment accounts for around 61% of the total AUM. Hence, it has concentration in terms of exposure to large-ticket-size investments. The recovery rate against such assets and duration for such a recovery will be key monitorables.

**Risk associated with ARC business:** ARC's earnings profile is volatile because of limited predictability in recoveries from acquired assets, given the nature of its business. With an increase in the number of players in the stressed asset market, competition is on the rise. Large players may give stiff competition to smaller players, given the change in the model of ARCs to involve more cash-based buying, compared largely with a security-receipts-based model adopted earlier. Due to the COVID-19 outbreak, the company witnessed a slowdown in asset acquisition and resolution/recovery during H1FY21. BWR believes such external factors and inherent risks in the business will continue to impact the company's profitability over the medium term. The ARC business 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 will continue to face challenges, given the inherent nature of the asset reconstruction business and the 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.



## **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:** Strong growth in asset acquisitions and the 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. 12.38 Crs in cash and bank balance as on 30 September 2020. Against the liquidity, the company has no stipulated repayments during H2FY21. 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.

**Coronavirus disease (COVID-19)**, declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers and to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

## **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	FY19	FY20
Result Type		Audited (As per IND AS)	Audited (As per IND AS)
Total Income	Rs in Crs	171.40	240.15
Profit After Tax	Rs in Crs	81.61	101.22
Networth	Rs in Crs	262.16	352.08
Gearing	Times	4.39	3.72
AUM	Rs in Crs	9308.17	10682.62

#### 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	4-Nov-19	11-Oct-18	21-Jun-17
Fund Based	Long Term	105.00	BWR A/Stable	BWR A/Stable	BWR A-/Stable	BWR BBB+/Stable
<b>Total</b>		<b>105.00</b>	<b>Rs. One Hundred and Five Crs.Only</b>			

#### COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

#### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)

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**Assets Care & Reconstruction Enterprises 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	15.00	0.00	15.00
3	Federal Bank	Cash Credit	15.00	0.00	15.00
<b>Total Rupees One Hundred and Five Crs. only</b>					<b>105.00</b>

**ANNEXURE II**

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

**ANNEXURE III List of entities consolidated: NA**



**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings** : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.