Rating Rationale

Brickwork Ratings revises the rating for the Bank Loan Facilities amounting to ₹75.00 Cr of Assets Care and Reconstruction Enterprise Limited.

Brickwork Ratings has revised the **Rating**[1] for the Bank Loan facilities amounting to **₹75.00 Crores** (enhanced from ₹50.00 Crores) of Assets Care and Reconstruction Enterprise Limited ('ACRE' or 'the Company') as follows:

Facility	Limits ₹ Cr		Tenure	Previous Rating	Present Rating
	Previous	Present			
Fund Based: Over Draft	50.00	**75.00**	**Long Term**	BWR BBB (Pronounced BWR Triple B) Outlook: Stable	**BWR BBB+ (Pronounced BWR Triple B Plus) Upgraded Outlook: Stable**
Total	50.00	**75.00**	**INR Seventy Five Crores Only**		

BWR has principally relied upon the audited financials up to FY15, provisional financials till Dec 31, 2015, publicly available information and information/clarifications provided by the Company's management.

The rating revision has considered the significant experience of the management, strong institutional shareholdings, increased assets portfolio, healthy profitability, capital infusion in FY15 and comfortable capitalization of the company. The rating, however, remains constrained on account of credit concentration risk as top ten NPA assets account for ~84% of the total portfolio and exposure to volatility in earnings profile on account of the asset quality challenges inherent in the asset reconstruction industry

Background

Assets Care and Reconstruction Enterprise (ACRE) Ltd, is an Asset Reconstruction Company, sponsored by SSG Capital SSG Capital Management (Singapore) Pte. Ltd and IFCI along with other banks and financial institutions. It is licensed by RBI under the SARFAESI Act with the objective of acquiring non-performing loans (NPLs) from Financial Institutions and banks in India. It started operations in July 2007.

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

Leading Banks and Financial institutions are the key shareholders of the company. ACRE is promoted by IFCI Ltd, Punjab National Bank and other banks and financial institutions. Singapore-based “SSG Capital Management”, a distress and special-situation private equity fund, picked up a 49% stake in Assets Care and Reconstruction Enterprise Ltd (ACRE) in September 2014.

Business Model

ACRE attempts to acquire assets by participating in auctions of NPAs by Banks/FIs or by issuing security receipts to eligible investors. ACRE targets medium and lower end segment Non Performing Assets (NPAs) in terms of ticket size having per client exposure of minimum Rs 50 lakhs and maximum 100% of the net worth of ACRE or Rs 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 short to medium term. The acquired assets are resolved either by Settlement of dues payable by the borrower or Reschedulement 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.

Assets under Management:

ACRE has acquired assets worth ₹ 349 Crs in FY15 and ₹ 671.68 Crores till Q3FY16. As on 31st Dec 2015, the company has Assets Under Management (AUM) amounting to ₹1088.24 Crores. Most of the assets are acquired through Security receipts with a resolution time of upto 5 years and with minimum cash investment of 15 %. Credit concentration of the portfolio is high with top ten NPA accounts constituting about 84% of the total portfolio and major exposure towards Power and Hospitality sectors contributing 46% and 26%, respectively.

Financial Profile

The Company has reported net profit of ₹ 8.25 Crores (32.55%) on total operating income of ₹ 25.34 Crores in FY15 as against net profit of ₹ 2.03 Crores (11.46%) on total operating income of ₹ 17.72 Crores in FY14. On a provisional basis, the Company has reported total operating income of ₹ 25.34 Crores for 9MFy16. Tangible networth has increased from ₹42.06 Crores in FY14 to ₹91.64 Crores in FY15 due to capital infusion and retained earnings. As on Dec 31, 2015, Capital Adequacy Ratio (CAR) of the company stood at 35.68% which is higher than the minimum CAR of 15% stipulated by RBI.

Rating Outlook

The rating outlook of the Company is expected to be stable in the near term in view of healthy asset portfolio and current trend in the growth of NPA in Banks and Financial institutions.

Going forward, the Company's ability to sustain growth in business operations, ability to effect recoveries along with timely and efficient resolution of distressed assets and maintain / improve its capital position will remain the key rating sensitivities.

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