



Rating Rationale

Assets Care and Reconstruction Enterprises Ltd

11 Oct 2018

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹ 105 Crs of Assets Care and Reconstruction Enterprises Ltd.

Particulars

Facility	Previously Rated Amount (Rs. in Crs)	Amount rated(in Crs)	Tenure	Previous Rating* (June 2017)	Rating Assigned*
Fund Based - Overdraft	75.00	105.00	Long Term	BWR BBB+ (Pronounced as BWR Triple B Plus) (Outlook : Stable)	BWR A- (Pronounced as BWR Single A Minus) (Upgrdate) (Outlook : Stable)
Total	75.00	105.00	INR One Hundred Five Crores Only		

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon audited financials upto FY 18, provisionals of June 2018 and projections of FY19 an FY20, publicly available information and information/ clarifications provided by the company.

The rating has, inter alia, factored in the significant experience of the management, institutional holding by the banks, significant recoveries in FY18 and current financial year, comfortable debt protection metrics, diversified investments and strong profitability margins. The rating is, however, constrained by the risk arising out of adverse developments in the policy framework, as distressed asset market in India is still at a nascent stage, asset quality challenges inherent in industry, volatility of the cash flows generated from the unpredictable schedules of NPA resolution and top 10 investments contributing to more than 73% of total assets under management (AUM).

Key Rating Drivers

Credit Strengths

- **Significant experience of management** – Company has strong management profile with prominent and experienced professional from the field of Bank and law. ACRE is

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sponsored by Axis Bank Ltd, Punjab National Bank and other banks and financial institutions. SSG Capital Management (Singapore) Pte. Ltd (PE investor), has acquired 49% stake in the Company in FY14 and whereas the combined stake of key sponsors - Axis Bank and PNB is 24% presently.

- **Comfortable Debt Protection metrics** - Company has comfortable debt protection metrics as ISCR and DSCR stood at 4.50x and 1.07x respectively in FY18 which reflects the ability of company to service its interest and principal debt.
- **Significant improvement in Recoveries** - Company has reported a significant improvement in recoveries in FY18 of Rs. 95.72 Crs. Also, company has been able to recover Rs. 397.42 Crs till June 2018 in which the major amount was realized from Bhushan Steel.
- **Improvement in Financials** - The Revenue from operations in FY18 has increased to Rs. 59.83 Crs against Income reported in FY17 of Rs. 40.06 Crs. The Company has achieved revenue from operations of Rs. 51.13 Crs in Q1 FY19 as compared to Rs. 14.86 Crs during the corresponding period last year. Assets under management of company has also improved to Rs. 3151.79 Crs as compared to Rs. 2479.17 Crs in FY17. Net worth of the Company increased from ₹155.17 Crores in FY17 to Rs. 164.92 Crores in FY18.

Credit Weakness

- **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. Company faces asset quality-related challenges as exposure to only stressed assets, despite adequate asset acquisition and resolution policy. PAT in FY18 was lower as compared to FY17 due to provisions/write off made of Rs. 24.55 Crs. Company's ability to recover money will create a significant impact on cash flows.
- **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.

Rating Outlook: Stable

BWR believes the **Assets Care and Reconstruction Enterprises Ltd's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



About the Company

Asset Care and Reconstruction Enterprise 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 license by RBI in October, 2003 to operate as a Securitization/Reconstruction company under the provision of Section 3 of SARFAESI Act, 2002 but its started its 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. The company attempts to unlock the value of distressed assets from the books of secured lenders viz. Banks, Financial Institutions and NBFCs. ACRE attempts to acquire assets by participating in auctions of NPAs by Banks/FIs or by issuing security receipts to eligible investors. As on 31st Mar 2018, the company has AUM amounting to ₹3151.79 Crores.

ACRE is sponsored by Axis Bank Ltd, Punjab National Bank and other banks and financial institutions. SSG Capital Management (Singapore) Pte. Ltd (PE investor), has acquired 49% stake in the Company in FY14 and whereas the combined stake of key sponsors - Axis Bank and PNB is 24% presently. Capital Adequacy Ratio (CAR) of the company stood at 28.70% in FY18 which is higher than the minimum CAR of 15% stipulated by RBI.

Company Financial Performance

Key Parameters	Unit	FY17 (Audited)	FY18 (Audited)
Total Operating Income	Rs. in Crs	40.06	59.83
OPBDIT	Rs. in Crs	34.74	48.56
PAT	Rs. in Crs	16.10	9.75
Tangible Net Worth	Rs. in Crs	155.17	164.92
TOL/TNW	Times	2.08	2.41
Current Ratio	Times	0.57	1.50

Status of non-cooperation with previous CRA: NA



Rating History for the last three years (including withdrawn/suspended ratings)

Facility	Tenure	Rating Assigned (2018)		Rating History		
		Amount (Rs. Crs)	Rating	2017	2016	2015
Fund Based - Overdraft	Long Term	105.00	BWR A- (Pronounced as BWR Single A Minus) (Upgrade) (Outlook : Stable)	BWR BBB+	BWR BBB+	BWR BBB
Total		105.00	INR One Hundred Five Crores Only			

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

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.

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