

RATING RATIONALE

28 Feb 2020

Alchemist Asset Reconstruction Company Limited

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of Rs 100 Crs and Non-Convertible Debentures of Rs. 100 Crs. of Alchemist Asset Reconstruction Company Limited

Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (March, 2019)	Present (Reaffirmed)
Fund Based	100	100	Long Term	BWR A- (Stable)	BWR A- (Stable)
NCD	100	100	Long Term	BWR A- (Stable)	BWR A- (Stable)
Total	200	200	Rupees Two Hundred Crores Only/-		

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

** Details of Bank Loan facilities and NCD is provided in Annexure-I & II

RATING ACTION / OUTLOOK: REAFFIRMED

Brickwork Ratings (BWR) has reaffirmed the ratings of the Bank Loan Facilities and Non-Convertible Debentures of Alchemist Asset Reconstruction Company Limited (AARCL). The rating reaffirmation factors in the experienced board and management, steady growth in asset under management (AUM) and regular recoveries made during FY19 and 9MFY20, stable financial performance during FY19 that was marked by adequate net profit margins and comfortable gearing. The rating, however, is constrained by high exposure to the real estate sector, along with a few other industries, stiff competition, risks arising out of adverse developments in the policy framework and the volatility of the cash flows generated from the unpredictable schedules of NPA resolution.

The company is expecting high recovery and gains from its investments in security receipts. However, the ability to sustain growth in business volumes, along with the timely and efficient resolution of distressed assets, will remain key rating sensitivities.

The Stable outlook indicates the low likelihood of a rating change over the medium term. BWR believes that AARCL's business risk profile would remain unchanged over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced board and management:** - AARCL is promoted by Mr. Alok Dhir, a lawyer and chartered account with more than three decades of experience in the financial-cum-legal aspect of NPA and distressed asset restructuring, rehabilitation and international lending. He is the managing partner of Dhir & Dhir Associates, a law firm in India. The AARCL also receives support from Dhir & Dhir Associates and its various group companies can advise them on matters related to legal issues and resolution. Promoter receives support from experienced professionals associated with distressed assets and the financial services industry for nearly two decades.
- **Growth in asset under management and regular recoveries:** - AARCL's AUM have increased to Rs 2084 Crs in FY19, compared with Rs 1525 Crs in FY 18, and it has stood at Rs. 2076 Crs until 9MFY20. Recoveries for the trusts acquired during the initial phase until 2011-12 are above 95%. The recovery percentage for the trusts acquired during recent years is on the lower side as these trusts are relatively new. In absolute terms, recoveries are increasing on a Y-O-Y basis. During FY19, the company recovered Rs.124.03 Crs., against Rs 112.27 Crs during FY18. For 9MFY19, the company recovered Rs. 79.98 Crs, and the company also expects higher recovery during Q4FY20.
- **Stable financial performance:** - AARCL's financial profile is stable, marked by adequate net profit margins and comfortable gearing. The total debt/ tangible net worth was at 0.99 times as on 31 March 2019. The net profit margin was adequate at 46.66% in FY19, against 44.32% in FY18.

Credit Risks:

- **High Exposure to real estate sector, with few other industries:** - AARCL has concentration in the real estate sector to the tune of 27%, against the total asset under management. The top four industries account for 69% of the total AUM.
- **Stiff Competition:** Many ARCs are registered in India, which manages more than Rs. 1 lakh Crores of AUM as of 31 March 2019. 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 more cash-based buying, compared largely with a security-receipts-based model adopted earlier.
- **Developments in policy framework and Volatility of the cash flow:** The ARC faces industry risks arising out of adverse developments in the policy framework as the distressed asset market in India is still at a nascent stage. Despite having adequate asset acquisition and resolution policy framework, AARCL 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. AARCL's earnings profile is volatile because of unpredictable recoveries from acquired assets, given the nature of its business.



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).

RATING SENSITIVITIES

Positive: Steady growth in acquisitions, along with a continuity of resolution from the assets purchased in the past would be a rating positive for AARCL. The rating may be upgraded if the AUM increased substantially, along with significant recoveries and redemptions, followed by an increase in the scale of operations and financial profile.

Negative: Delayed acquisition and resolutions of assets or a sharp rise in gearing may lead to a change in outlook from stable to negative.

LIQUIDITY INDICATORS: ADEQUATE

Liquidity is comfortable, given the moderate bank limit utilisation at less than 25% and enough cushion between net cash accrual and debt repayment obligation in FY19. The company had Rs. 0.66 Crs cash and bank balance as on 31 December 2019. Moreover, the company is in the process of selling a few assets, which will provide further liquidity.

COMPANY PROFILE

Incorporated in September 2002, Alchemist Asset Reconstruction Company Limited (AARCL) was granted License/Certification of Registration by the Reserve Bank of India on 15 March 2007 as a securitisation and reconstruction company under the SARFAESI Act. The company commenced its operations on 18 June 2007. AARCL is involved in the business of securitisation and asset reconstruction, which consists of acquiring NPAs / distressed assets, resolving the assets and creating value in the process. The ARC is presently dealing with over 45 banks and financial institutions.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY 2018	FY2019
Result Type		Audited	Audited
Total Income (excluding other income)	Rs in Crs	26.56	37.32
PAT	Rs in Crs	11.77	17.42
Tangible Net Worth	Rs in Crs	131.85	149.26
Gearing	Times	0.49	0.99
CRAR	%	52.25%	39.81%

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

RATING HISTORY FOR THE PREVIOUS THREE YEARS

Instrument / Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (Rs.Crs.)	Rating	28 Mar 19	17 Oct 18	26 Oct 17
Fund Based	Long Term	100	BWR A-(Stable)	BWR A-(Stable)	BWR A-(Stable)	BWR BBB+ (Stable)
NCD		100	BWR A-(Stable)	BWR A-(Stable)	-	-
Total		200	Rupees Two Hundred 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 and Financial Institutions](#)

Analytical Contacts	Investor and Media Relations
<p>Rajat Bahl Chief Analytical Officer & Head - Financial Institutions +91 22 6745 6634 Rajat.b@brickworkratings.com</p> <p>Praful Kumar Dave Senior Rating Analyst +91 22 6745 6638 prafulkumar.d@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>



Alchemist Asset Reconstruction Company 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	Andhra Bank	SOD	25.00	0.00	25.00
2	Proposed	Fund Based	75.00	0.00	75.00
Total Rupees One Hundred Crores Only					100.00

ANNEXURE II

INSTRUMENT (NCD: Outstanding Nil)

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate	Maturity Date	ISIN Particulars
NCD Proposed	-	100.00	-	-	-
Total	-	100.00	-	-	-

Total Rupees One Hundred Crores Only

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 Private limited (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empanelled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empanelled 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.



DISCLAIMER: Brickwork Ratings Private Limited (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