

Rating Rationale

Brickwork Ratings assigns a rating of ‘BWR BBB’ (Pronounced BWR Triple B) with ‘Stable’ outlook for the fund based Working capital facility of INR 50 Cr sanctioned to Asset Care and Reconstruction Enterprises Ltd., New Delhi

Working Capital Facility: BWR BBB

Outlook : Stable

Brickwork Ratings (BWR) has assigned ‘**BWR BBB**’ (**Pronounced BWR Triple B**) rating with stable outlook for the working capital facilities of Asset Care and Reconstruction Enterprises Ltd (ACRE) sanctioned by the Punjab National Bank:

Facility	Limits (₹Crs)	Rating
Fund Based Working Capital-Overdraft Facility	50 Crs	<p>BWR BBB (Pronounced BWR Triple B) (Outlook: Stable)</p> <p>A credit facility with this rating is considered to have moderate degree of safety regarding timely servicing of financial obligations and carries moderate credit risk.</p>

BWR has principally relied upon ACRE’s audited financial results for FY12, projected financials, publicly available information and information/clarification provided by the Company management.

The rating has factored, inter alia, the institutional shareholding, composition of the Company’s Board and strong capital levels. However, rating is constrained by high credit concentration and high debt to equity ratio.

Company Profile

Asset Care and Reconstruction Enterprises Ltd. was incorporated in June 2002 under the name of Asset Care Enterprises Ltd. The company was renamed Asset Care and Reconstruction Enterprises Ltd (ACRE) in November, 2010. Leading Banks and Financial institutions are the key shareholders of the company. As on June, 2012 IFCI Ltd and Punjab National Bank respectively held 37.9% and 30% of the equity shares.

ACRE is engaged in the business of acquiring non-performing assets from banks and financial institutions after getting the license from RBI in October, 2003 to operate as a Securitization/Reconstruction company under the provision of Section 3 of SARFAESI Act, 2002. The Company started its operations in July 2007

Business Model

ACRE targets medium and lower end segment Non Performing Assets (NPAs) in terms of ticket size having per client exposure of minimum ₹50 lakhs and maximum 100% of the net worth of ACRE or ₹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 about one to three years. ACRE's business model focuses on acquiring NPA accounts where promoter/borrower has arrived at a settlement with the bank. The Company acquires the loan assets after paying the settlement amount. The acquired assets are resolved either by Settlement of dues payable by the borrower or Rescheduling 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.

Operations and Portfolio

ACRE started its operations in July 2007. The company has increased its operations over last 5 years and has acquired assets worth ₹234 Cr during FY09-FY12 and resolved assets worth Rs98 Cr in the same period. ACRE's portfolio increased from ₹36.32 Cr on March 2009 to ₹150.7 Cr on March, 2012. Most of the assets acquired are with an initial resolution time of up to 36 months and with minimum security coverage of 1.5 times.

Summary Of Assets (₹ Cr)

	FY09	FY10	FY11	FY12
Asset Acquired	26.9	38.4	94.87	74.08
Outstanding portfolio	36.32	71.71	136.5	150.7
Value of assets realized	n/a	3.04	30.09	59.8

Top ten NPA accounts constitutes about ~89% of the total portfolio. Hence, credit concentration of the portfolio is high in terms of exposure to top ten cases. Although ACRE has acquired assets across industries the share of Textiles (43%), engineering (21%) and Paper (15%) is higher than other industries.

Financial Performance:

For FY12, income from operations increased by 40% y-o-y to ₹26.73 crore from ₹19.03 crore in the previous year on account of increase in business volume and successful resolution of some of the distressed assets. Profit after tax jumped by 35.5% Y-o-Y from ₹6.08 Cr to ₹8.24 Cr in the same period. The cost of fund is ~ 14%, the company enjoys interest spread of ~ 10%.

Operating expenses of the company has reduced over the last three years and for FY12 it stands at ~ 2% of the avg. total assets. Operating and PAT margin remained healthy with reported Operating profit/Average total assets and PAT/Average total assets remains ~ 13% and ~ 5% respectively.

Capitalisation:

ARCs with net worth of less than ₹100 Crores are required to maintain capital adequacy of 15% on an ongoing basis. Capitalisation level of the company remains comfortable with capital adequacy ratio (as on 31st March 2012) of 24.62% against the minimum capital adequacy ratio of 15% stipulated by RBI.

Board of Directors

The Board of Directors of ACRE comprises of highly qualified and experienced personalities from the field of Finance, Banking and Law. Amongst the prominent independent Directors are Mr. Jagdish Kapoor who served as the Former Deputy Governor of RBI and was on the board of directors for State Bank of India and Housing Development Finance Corporation, and Mr- M.S. Aftab - Former Executive director of Vijay Bank.

Key personnel of the company are well experienced in the field of restructuring and reconstruction of NPAs and Management of stressed financial asset.

Key Financials (₹ Cr)	FY12	FY11	FY10
Equity Capital	19.12	19.12	19.12
Reserves and Surplus	18.15	9.9	3.82
Current Liabilities & Provisions	53.04	71.08	44.07
Current Assets	99.87	88.73	77.03
Non-Current Assets	83.22	78.44	0.73
Total Operating Income	26.73	19.03	6.02
Expense	4.07	3.80	3.2
EBITDA	22.66	15.24	2.95
Depreciation	0.12	.10	.05
Interest	10.21	6.01	1.16
Other income	0.11	0.12	.20
PBT	12.44	9.24	1.87
Taxes	4.20	3.15	0.66
PAT	8.24	6.08	1.21
Ratios			
Interest Income/ Avg. total assets	15.1%	15.5%	10.2%
Interest Expense / Avg. total assets	5.8%	4.9%	2.0%
Net Interest Margin/Avg. total assets	9.3%	10.5%	8.3%
Operating Expenses/ Avg. total assets	2.1%	3.2%	5.3%
Operating Profit/Avg. total assets	13.2%	12.4%	4.9%
PAT/Avg. total assets	4.7%	5%	1.8%
Cost to Income ratio	22.3%	29.7%	62.1%
ROA	4.7%	5%	1.8%
Net worth	37.26*	29.02	22.9
Total Debt/Net worth	2.77	3.14	1.88
CAR	24.62%	21.26%	31.99%

*Share application money of ₹26.34 cr since been returned by the Company, hence has not been included as part of the net worth.

Rating Outlook

Given the current trend in the growth of NPA in Banks and financial Institutions and urgency for their faster resolution and realization, there is ample scope for growth in the Company's business and revenue. However, the Company faces challenge in respect to resolving them effectively within a reasonable time frame. That and ACRE's high credit concentration in terms of exposure to top ten cases and high gearing ratio are the key rating sensitivities.

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