

Press Release

Asrec India Limited

09 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	SMERA A- / Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long-term rating of '**SMERA A-**' (read as **SMERA A minus**) on the Rs.100.00 crore bank facilities of Asrec India Limited. The outlook is '**Stable**'.

Asrec India Limited (Asrec), a Mumbai based company incorporated in 2003 by Mr. Dhananjay Jain, Mr. Mukund Chitale and Mr. Vijay Shunglu. Asrec is engaged in the business of securitization of Assets and reconstruction of financial assets registered with Reserve Bank of India. The company is sponsored by prominent public sector banks.

Key Rating Drivers

Strengths

- **Strong parentage by prominent public sector banks and experienced management**

Asrec is sponsored by prominent public sector banks like Allahabad Bank (27.04% stake), Bank of India and Andhra Bank (26.02% stake each), Indian Bank (11.22% stake), Life insurance Corporation of India (9.18% stake) and Deutsche Bank (0.51% stake) as on March 31, 2017. The Board of the Company comprises of experienced professionals with banking and legal background. Asrec headed by Mr. Dhananjay Kumar Jain (MD and CEO) who has vast experience of 36 years in banking sector and has worked with different credit departments and also in recovery and legal service department. Mr. V.K. Shunglu is the Chairman and he is also currently on the board of Delhi Public School & Power Grid Corporation of India Limited.

SMERA believes that Asrec is expected to continue to receive support from its strong parentage over the medium term. SMERA also believes that Asrec's business profile is expected to grow at a healthy pace over the medium term and this will be supported by recent developments such as increased provisioning for stressed assets made in the books by banks and favorable changes in regulation leading to an increase in NPA selling activity.

- **Adequate capitalization**

Asrec is comfortably capitalized with a tangible network of Rs.141.87 crore as on March 31, 2017. The gearing as on March 31, 2017 was 0.32 times. The company has short term debt from the bank of Rs.50.00 crore. As on December 31, 2017, Asrec had Rs.6449.79 crore of Assets Under Management (AUM) in outstanding Security Receipts (SRs) with Rs.668.38 crore of SRs held on its own books. Given the inherently volatile nature of cash inflow in the asset reconstruction business, Asrec is maintaining gearing within 0.32 to 0.36 times during the period FY2015 to FY2017. The capital adequacy ratio of the company stood at 93.05 percent in FY2017 as against 87.51 percent in FY2016. SMERA believes that Asrec will maintain its adequate capitalization levels over the near to medium term.

- **Established track record on recovery**

Asrec has a good recovery track record from distressed assets. Given that it takes 2-3 years for significant recovery to commence, the redemption ratio for Asrec's security receipts (SRs) issued till March 31, 2016 was 90 percent. Furthermore, the SR redemption ratio till December 30, 2017 was 10.48 percent (~10.00% till March 31, 2017). In most of Asrec's closed trusts, the gross internal rate of return (IRR) has been well

above the threshold. Out of the total outstanding SRs of Rs.668.38 crore as on March 31, 2017, Rs.68.21 crore has been redeemed (i.e 10.20% has been redeemed). The company's recovery record is supported by continued focus on relatively small accounts, primarily small and medium enterprises and retail accounts, where it has built expertise. The SR ratings of Asrec also indicate reasonable expectation of recovery. Hence, SMERA believes Asrec will maintain its average recovery rate over the medium term.

Weaknesses

• Volatile earning profile

The company has shown volatile earning profile during the period FY2015 to FY2017 under the study. The revenue stood at Rs.23.20 crore in FY2017 as against Rs.19.76 crore in FY2016. Asrec's cost to income ratio stood at 62.49% in FY2017 as against 31.58% in FY2016. The company reported PAT of Rs.8.89 crore as against PAT of Rs.2.59 crore in FY2016. The company's recovery on assets acquired for FY17 stood at Rs.67.21crore while in FY16 was Rs.242.81 crore. Further, the recovery for the period April to February 2018 stood at Rs.80.04 crore. The company's earnings are volatile on account of uncertainty in resolution of acquired assets with respect to recovery amounts and timelines, as is inherent in the ARC industry. The Indian assets market is in a nascent stage with limited seasoning and is gradually developing with regulatory policies taking shape steadily. SMERA believes that the recent increase in minimum holding requirement for assets acquired through security receipts will have adverse impact on business growth of the company.

• Asset quality challenges inherent in the industry

Despite having adequate asset acquisition and resolution policy framework, Asrec will continue to face challenges, given the inherent nature of the asset reconstruction business and the ARC industry as a whole. As the company's AUM has grown primarily in the past few years and it takes around four to five years to resolve an asset and recover dues, the performance of the recently acquired portfolio remains to be seen. SMERA believes that the ability of the company on timely recoveries in the current challenging macroeconomic scenario marked by significant pressure on cash flows of highly leveraged borrowers will be a key rating sensitivity.

Analytical Approach

SMERA has considered standalone business and financial risk profile of Asrec to arrive at the rating

Outlook: Stable

SMERA believes that Asrec will maintain a 'Stable' business risk profile over the medium term. The outlook may be revised to 'Positive' if the company significantly improves its recovery and earnings profile while steadily increasing its AUM. Conversely, the outlook may be revised to 'Negative' if there is weakening in the asset quality of the company or higher leverage or if the company faces pressure in the event of changes in the regulatory framework that might adversely affect their business.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.20	19.76	21.87
EBITDA	Rs. Cr.	14.50	6.24	12.25
PAT	Rs. Cr.	8.89	2.59	9.23
EBITDA Margin	(%)	62.49	31.58	56.02
PAT Margin	(%)	38.30	13.12	42.23
ROCE	(%)	8.71	3.63	14.46
Total Debt/Tangible Net Worth	Times	0.32	0.20	0.36
PBDIT/Interest	Times	16.68	2.82	100.43
Total Debt/PBDIT	Times	2.99	4.25	3.53
Gross Current Assets (Days)	Days	685	94	320

Status of non-cooperation with previous CRA (if applicable)

Not available

Any other information

Not available

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Services Sector - <https://www.smera.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument<https://www.smera.in/criteria-complexity-levels.htm>**Rating History (Upto last three years)**

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A- / Stable

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ABOUT SMERA

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