

## Press Release

**Asrec India Limited**

July 05, 2019

**Rating Reaffirmed**



<b>Total Facilities Rated*</b>	Rs. 100.00 Cr.
<b>Long Term Rating</b>	ACUITE A-/ Outlook: Negative (Rating reaffirmed; Outlook revised to Negative)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 100.00 Cr. bank facilities of Asrec India Limited (AIL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in outlook is driven by Acuite's expectation that AIL will continue to face pressures in respect of its operating performance mainly on account of slower pace of acquisition of new distressed assets. The regulatory dispensation has tilted the advantage in favor of ARCs with higher ability to acquire assets through cash deals. This has impacted the opportunities available to relatively mid-sized players like AIL.

### About the company:

Incorporated in 2003, Asrec India Limited (AIL), is a Mumbai based company engaged in acquiring distressed assets from banks and financial institutions and resolving them through appropriate resolution strategies. The company is sponsored by prominent public sector banks and institutions. The Board comprises of seven member led by Mr. Dhananjay Jain, Managing Director and CEO of the company. The other members include nominees from sponsor banks along with three Independent Directors. The top management is supported by functional professionals with expertise in areas pertaining to credit, recovery and law.

### Analytical Approach

Acuite has adopted a standalone approach on AIL's business and financial risk profile for arriving at the rating.

### Key Rating Drivers

#### Strengths

- Parentage of prominent public sector banks and experienced management:**

AIL is sponsored by prominent public sector banks including 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, 2019.

The Board of the Company comprises of experienced professionals with banking and legal background. AIL is 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.

Acuite believes that AIL will continue to be supported by the parentage of leading banks. The ownership pattern of AIL will be a key rating sensitivity.

- Low dependence on external debt:**

AIL reported tangible net worth of Rs.146.01 crore as on March 31, 2019 (Rs. 146.88 Cr. as on March 31, 2018). The gearing as on March 31, 2019 was 0.17 times as against 0.30 times as on March 31, 2018. The company has short term debt from the bank of Rs.50.00 cr. which is, on an average, 28 percent utilised

in the seven months ended May 31, 2019. AIL has maintained gearing of 0.17 times as on March 31, 2019 as against 0.33 times as on March 31, 2018. The capital adequacy ratio of the company stood at 90.23 percent as on March 31, 2019.

Acuite believes that AIL will maintain its adequate capitalisation levels over the near to medium term.

### Weaknesses

- Weakness in operating performance:**

AIL's revenue profile comprises income from management fees, income from investments in financial assets and investments in security receipts. The company reported total income (including fair value adjustments) of Rs. 16.1 Cr. in FY2019 as against Rs. 31.1 Cr. in FY2018. The company reported Profit after Tax (PAT) of Rs. 5.1 Cr in FY2019 as against Rs. 15.3 Cr in FY2018. The company's earnings have declined, though the company's recovery levels have been on an increasing trend, its acquisitions have declined in 2019 to 17 accounts as against 67 in previous year with an acquisition cost incurred by AIL of Rs. 58.00 Cr. in FY2019 as against Rs. 99.00 Cr. in FY2018.

Acuite believes that the company's ability to maintain a steady growth in revenues will be linked to its ability to maintain a consistent acquisition strategy and successful resolution of the acquired assets.

- Inherent challenges due to regulatory changes:**

The changes in the regulatory regime pertaining to acquisition of distressed assets from banks by ARC has tilted the balance in favor of those ARCs who are able to acquire assets for direct cash conditions as against issuance of Security receipts. The current disposition does not provide any significant benefits to the banks (sellers of these distressed assets) in case the investment of the bank in these SR's exceed a threshold limit. Hence, the banks are incentivized to go for cash deals. Against this backdrop, mid-sized ARCs like AIL could find it challenging to maintain a steady and consistent growth in acquisition of distressed assets. The intense competition from other ARC's will also add to the headwinds in achieving the growth in scale of operations.

### Liquidity Position:

AIL's liquidity profile is adequate in the absence of any term debt obligations. The company has working capital limit of Rs. 50 Cr. which is on an average 28 percent utilised in the seven months ended May 31, 2019.

### Outlook: Negative

Acuite believes that AIL's credit profile will remain under pressure on account of the deterioration in operating performance. The weakness in operating performance is likely to continue till AIL is able to demonstrate a significant growth in acquisition of distressed assets and successful resolution of these assets. The outlook shall be revised to Stable if the company is able to demonstrate a significant and sustainable improvement in its revenues and net profit. Conversely, the rating will be downgraded in case the declining trend in the revenues and net profits continue further.

### About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	177.5	190.4	186.1
Total Income*	Rs. Cr.	16.1	31.13	22.0
PAT	Rs. Cr.	5.1	15.3	8.9
Net Worth	Rs. Cr.	146.0	146.9	137.4
Return on Average Assets (RoAA)	(%)	2.75	8.14	5.13
Return on Average Net Worth (RoNW)	(%)	3.46	10.78	6.57
Total Debt/Tangible Net Worth (Gearing)	Times	0.17	0.30	0.33
Gross NPA	(%)	NA	NA	NA
Net NPA	(%)	NA	NA	NA

\* Total income including fair value adjustment

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

None

#### Any other information

None

#### Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
April 09, 2018	Cash Credit	Long Term	50.00	ACUITE A-/ Stable (Assigned)
	Proposed Cash Credit	Long Term	50.00	ACUITE A-/Stable (Assigned)

#### \*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Cash Credit	NA	NA	NA	50.00	ACUITE A-/Negative (Reaffirmed with outlook revised to Negative)
-	Proposed Cash Credit	NA	NA	NA	50.00	ACUITE A-/Negative (Reaffirmed with outlook revised to Negative)

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**About Acuité Ratings & Research:**

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