

Press Release

Asrec India Limited

August 16, 2021



Rating Reaffirmed & Assigned; Outlook Revised

Total Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed; Outlook revised from Negative)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term 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 '**Stable**' from '**Negative**'.

Reason for Stable Outlook:

The revision in rating is driven by improvement in AIL's profitability metrics on account of rise in core operating income and significant growth in AUM. AIL's AUM increased from Rs.821 crore as on March 31, 20 to Rs.1606 crore March 31, 21. On the profitability front, RoAA increased to 4.83% during FY21 [P.Y.: 4.30%]. The rating continues to factor in AIL's parentage (AIL is majorly owned by three public sector banks & LIC), experienced management and support in the form of presence of nominee directors of the Board of the company. The rating also takes into account comfortable capitalization levels (56.07% as on March 31, 2021) and recovery track record. The rating is however constrained on account of susceptibility of the earnings profile to asset recovery which is inherent to ARC business model. Going forward, change in the promoter shareholding and AIL's ability to profitably grow its portfolio are key rating sensitivities.

About the company:

Mumbai based, Asrec India Limited (AIL) was incorporated in 2003. AIL is 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 eight member led by Mr. Girish Sharan Sinha, Managing Director and CEO of the company, the other members include nominees from sponsor banks. 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 Indian Bank (38.27% stake), Bank of India and Andhra Bank (26.02% stake each), Life insurance Corporation of India (9.18% stake) and Deutsche Bank (0.51% stake) as on March 31, 2021.

The Board of the Company comprises of experienced professionals with banking and legal background. AIL is headed by Mr. Girish Sharan Sinha (MD and CEO) who has vast experience of over a decade in Asset Reconstruction Companies (ARCs). 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. The other board members include three Nominee Directors with vast experience in banking sector.

- Healthy financial performance & recovery track record**

AIL commenced ARC business in 2003 and reported outstanding SRs of Rs.1606.38 Cr. as on March 31, 2021 (Rs.820.75 Cr. as on March 31, 2020). The ARC follows sector agnostic approach with its exposure spread across varied industries including textile, Iron and Steel, Infrastructure, Trading, Jewellery among others. Further given that AIL acquires SME NPAs' from banks, its portfolio is granular. Though AIL reported lower recovery during FY2021 i.e. Rs.114.58 Cr. as against Rs. 159.62 Cr. for FY2020, the management fees have been higher which resulted in improvement in operating income to Rs. 43.06 Cr. in FY2021 from Rs. 25.77

Cr. in FY2020. Higher management fees coupled with lower operating expenses have resulted in improved profitability metrics. ROAA improved to 4.83 per cent for FY2021 as against 4.30 per cent for FY2020 while Operating Expense to Earning Assets improved to 4.97 per cent for FY2021 from 6.49 per cent for FY2020.

The company has comfortable recovery track record. Quantum wise, AIL's recoveries have been broadly stable over the last few years partly contributed by granular portfolio. Despite Covid-19 impact, recoveries have been stable during FY20 and FY21 on account of lesser disruption in resolution of granular accounts as compared to wholesale/ big ticket resolutions. Despite stable recoveries, AIL's cumulative recovery/total SR's ratio declined to 76.37% during FY21 [P.Y.: 135.52%] mainly on account of significant AUM growth during the same period.

Weaknesses

- **Susceptibility of earning profile to asset recovery due to Inherent challenges faced by ARC segment:**

AIL is likely to continue to face challenges given the inherent uncertain and time consuming nature of the recoveries asset reconstruction business. 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, incentivizing the banks to go for cash deals and tilting the balance in favor of those ARCs who are able to acquire assets for direct cash conditions as against issuance of security receipts. However, this is lesser in case of AIL as it is of retail nature and gets steady management fees from seller. Since the regulation has allowed investment by QBs, the ability of any ARC to tap this route will depend to a large extent on their demonstrated track record of recovery. Any challenges in achieving meaningful resolution of these assets will also have a bearing on the ability of the ARC to attract future support from the QBs for their acquisitions. Most of the distressed assets have multiple lenders and a resolution strategy can be evolved and implemented only upon the concurrence of most of these lenders. The approach of the other lenders in any particular resolution strategy also needs to be aligned with the other lenders. Additionally, the current environment with economic contraction signs is not conducive for effective and speedy resolution of stressed assets. Hence the players like AIL are likely to face challenges in maintaining their revenue profiles and earnings in the current situation.

Liquidity Position: Adequate

AIL had unencumbered cash and cash equivalents of ~Rs. 14.66 Cr. as on 31st March, 2021. AIL's borrowing profile comprises of external commercial borrowings (49.26%), overdrafts (16.99%) and inter-corporate borrowings (33.76%). During FY21 inter-corporate borrowings increased significantly from Rs.3.61 crore as on March 31, 20 to Rs.25.0 crore as on March 31, 21. Given the uncertain/lumpy nature of recoveries, the company's borrowings are mainly in the form of overdrafts and short tenure inter-corporate borrowings which enables it to match liquidity position.

Rating Sensitivities:

- Significant changes in ownership pattern
- Deterioration in credit profile/financial flexibility of AIL
- Delayed resolutions impinging recovery performance thereby impacting earnings profile
- Regulatory environment governing ARCs

Outlook: Stable

Acuite believes that AIL will maintain a 'Stable' business risk profile over the medium term supported by experienced management team. The outlook may be revised to 'Positive' if the company demonstrates material and sustainable improvement in its earnings profile, capitalisation levels, growth in acquisition of distressed assets and its successful resolution. Conversely, the outlook may be revised to 'Negative' if there is persistent decline in capitalisation levels, acquisition of distressed assets due to lack of capital, or headwinds in the event of changes in the regulatory framework that might adversely affect the business.

About the Rated Entity - Key Financials

Parameters	Unit	FY21 (Actuals)	FY20 (Actual)
Total Assets	Rs. Cr.	293.52	202.77
Total Income*	Rs. Cr.	43.06	25.77
PAT	Rs. Cr.	11.99	8.18
Net Worth	Rs. Cr.	165.70	154.19

Return on Average Assets (RoAA)	(%)	4.83	4.30
Return on Average Net Worth (RoNW)	(%)	7.49	5.45
Total Debt/Tangible Net Worth (Gearing)	Times	0.45	0.29
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

* Total income including fair value adjustment

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

None

Material Covenant

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
October 16, 2020	Cash Credit	Long Term	50.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	37.26	ACUITE A-/Negative (Assigned)
	Proposed Cash Credit	Long Term	62.74	ACUITE A-/Negative (Reaffirmed)
July 05, 2019	Cash Credit	Long Term	50.00	ACUITE A-/Negative (Reaffirmed with outlook revised to Negative)
	Proposed Cash Credit	Long Term	50.00	ACUITE A-/Negative (Reaffirmed with outlook revised to Negative)
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

Lender Name	ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of Mauritius	-	External Commercial Borrowings	Not Available	Not Available	Not Available	37.26	ACUITE A-/Stable (Reaffirmed; Outlook revised from Negative)

State Bank of Mauritius	-	Overdraft	Not Available	Not Available	Not Available	10.00	ACUITE A-/Stable (Assigned)
Not Applicable	-	Proposed Cash Credit	Not Available	Not Available	Not Available	52.74	ACUITE A-/Stable (Reaffirmed; Outlook revised from Negative)

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About Acuité Ratings & Research:

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