Press Release

Alchemist Asset Reconstruction Company Limited

October 16, 2019

Rating Assigned

Total Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE A/ Outlook : Stable (Assigned)

* *Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A' (read as ACUITE A)** on the Rs. 100.00 Cr. bank facilities of Alchemist Asset Reconstruction Company Limited (AARCL).The outlook is '**Stable'**

AARCL is a Delhi-based Asset Reconstruction Company incorporated in 2002. The company is licensed with RBI as Securitization and Asset Reconstruction Company since 2007. The company was started by Mr. Alok Dhir and family who holds ~50 per cent as on March 31, 2019. The remaining stake is held by DMI Finance Private Limited (holding 11.9 per cent), Al Zawawi Group (holding 6.9 per cent) along with other high Networth Individuals and Corporates.

Mr. Alok Dhir is a Chartered Accountant and practicing lawyer by profession. Mr. Dhir is a pioneer in financial services and legal domains and is in practice since 1983.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AARCL to arrive at the rating.

Key Rating Drivers

Strengths

•**Benefits emanating from marquee investor base coupled with domain expertise of key promoters:**
AARCL is promoted by Mr. Alok Dhir and is in the business of acquisition and resolution of stressed assets since 2007. Mr. Alok Dhir is the Managing Director of the company and also a Managing Partner at Dhir & Dhir Associates, a leading Law Firm in India. Mr. Dhir has been practicing law since 1983 and also recognized as a leading individual in the restructuring and insolvency practice by some of the most credited rankings for legal services. The domain expertise of the key promoter and his network of client supports AARCL's business profile in terms of its ability to identify and source potential assets. The management team comprises of seasoned professionals in various domains such as acquisition, resolution, legal and compliance, monitoring, among others. The company also benefits from the experience of eminent professionals on its board namely Mr. Pratip Chaudhuri, former Chairman of SBI, having over four decades of experience in banking sector. Other Directors have over three decades of expertise in in legal, banking and financial services.

The business model of ARCs has recently undergone a radical transition due to regulatory changes. The capital intensity of the business has increased and the ARCs are now required to commit more funds to every acquisition rather than using security receipts as a mode of acquisition. The selling banks also prefer more cash deals rather than deals entailing security receipts. Against this backdrop, the ability of the ARCs to raise funds from various sources becomes pertinent. AARCL's fund raising initiatives are headed by Ms. Srishti Dhir, daughter of Mr. Alok Dhir in capacity of President. Ms. Dhir has a Masters Degree from London Business School and qualification in law from Warwick University. AARCL has attracted marquee investors and has a wide base of HNI's supporting its resource raising ability in the form of equity as well as acting as a Qualified Buyer in the acquisitions that the ARC has made in recent past.

The company's funding mix as on March 31, 2019 comprises net worth of ~ Rs. 174,(including compulsorily convertible debentures of Rs. 24 Cr.) and availed borrowings of Rs. 125.6 Cr. of which bank borrowings comprised Rs. 25 Cr. The company is comfortably place with gearing of 0.7 times as on March 31, 2019. The borrowings are in the form of inter corporate deposits, unsecured loans from Directors and related entities, banks, and QIBs.

Acuité believes that AARCL will continue to benefit from the domain expertise of the promoters and the ability of the promoters to attract diverse investors both as equity shareholder as well as QIBs for their acquisitions.

Weaknesses

- **Earning profile susceptible to timely resolution of assets:**

AARCL's acquisition strategy is sector agnostic with a focus on aggregation and consolidating the share in the overall debt of the acquisition. The company's AUM of Rs. 2084 Cr. as on March 31, 2019 is across 17 industries of which top four industries contribute 68.7 per cent. The top four industries are Real Estate (27 per cent), Hospitality (15.3 per cent), Energy (14 per cent) and Textile (12 per cent). The overall AUM as on March 31, 2019 is spread across 81 accounts.

Since the company's inception in 2007, the company's growth has been moderate till 2017. The AUM has doubled in the last two years from Rs. 1019.1 Cr. as on March 31, 2017 to Rs. 2084.6 Cr. as on March 31, 2019. This is on account of the aggressive acquisitions over the past two years. The company has managed to fund these acquisitions mostly by tapping the QIB route. Since there is often a time lag between acquisitions and resolution of the assets, the impact of these acquisition on the revenue profile is yet to be observed. The company's revenue streams primarily comprise of Management Fees, incentive for recovery, profit on resolution and sale of assets among others.

AARCL's ratio of cumulative SRs redeemed to cumulative SRs issued ranges between 9 to 11 per cent in three years ending March 31, 2019. Of the overall AUM as on March 31, 2019, 37 per cent of the assets are under IBC, 9 per cent are yet to be restructured, 35 per cent are restructured and 18.6 per cent are under enforcement.

AARCL's efforts to seek resolution of its assets are expected to be supported by recent regulatory changes such as introduction of the Insolvency and Bankruptcy code (IBC). However, the ARCs ability to effect meaningful resolution will also depend on the ability to strike a consensus with the other lenders. Especially in those cases where AARCL does not have a major share of the overall debt. Any significant delays in resolution of major acquisitions will impact its revenue profile going forward. The overall slowdown in the country is also likely to have a bearing on the demand for industrial assets which in turn can impact those cases where sale of assets is the major source of resolution. Similarly, in case of assets requiring change of management, the identification of the new management acceptable to all lenders may also prove to be challenge.

Acuite believes that AARCL's ability to achieve a growth in its revenues profile will be influenced by resolution of its key assets in a timely manner.

- **Inherent challenges in the Asset reconstruction business:**

AARCL is likely to continue to face challenges given the inherent nature of the asset reconstruction business. 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, ARCs like AARCL have a higher dependence on its investors to provide funding support in order to demonstrate a 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.

While the regulation has allowed QIBs investment, the ability of any ARC to tap this route will depend to a large extent on their demonstrated track record of recovery especially in the similar sector. 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 QIBs for their acquisitions.

Rating Sensitivities:

- Sustained AUM and earnings Growth
- Increase in gearing above 1 times
- Single Sectorial concentration beyond 35 per cent

Material Covenants

None

Liquidity position: Adequate

The company's liquidity profile is adequate with no repayments in the next two year towards term debt this is because the acquisitions are funded through a mix of equity, QIB funds and promoter funds with largely no scheduled payments. Acuité believes that the company should be comfortable over the near term. Further, the company avails overdraft facility from bank of Rs. 25 Cr., which is on an average 80 per cent utilized.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	379.75	252.77	172.95
Total Income*	Rs. Cr.	32.49	24.27	14.71
PAT	Rs. Cr.	17.88	11.77	6.51
Net Worth	(%)	173.72	131.85	120.08
Return on Average Assets (RoAA)	(%)	5.65	5.53	4.13
Return on Average Net Worth(RoNW)	(%)	11.70	9.34	5.57
Total Debt/Tangible NetWorth (Gearing)	Times	0.72	0.49	0.36
Gross NPA	Times	NA	NA	NA
Net NPA	Times	NA	NA	NA

** Total income equals to Net interest income plus other income*

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

None

Any other information

None

Applicable Criteria

- Non-Banking Financing Entities: https://www.acuite.in/view-rating-criteria-14.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.htm

Note on complexity levels of the rated instrument

https://www.acuite.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. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A/Stable (Assigned)

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About Acuité Ratings & Research:

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