

Press Release

Alchemist Asset Reconstruction Company Limited

December 31, 2020

Rating Reaffirmed



Total Bank Facilities Rated	Rs.100.00 Cr.
Long Term Rating	ACUITE A/ Stable (Reaffirmed)

Rating Rationale

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

The rating reaffirmation reflects Alchemist Asset Reconstruction Company Limited's (AARCL) experienced management, support from marquee investors like DMI Finance Private Limited (holding 11.9 per cent), Al Zawawi Group (holding 6.9 per cent) and its operational track record of over a decade in the asset reconstruction industry. The rating also factors in high recovery levels (Rs.61.3 Cr. in H1FY21, Rs.99.3 Cr. in FY2020 and Rs.124.1Cr. in FY2019). These strengths are, however, partially offset by moderation in operational performance as depicted by decline in profitability levels (Profit After Tax (PAT) of Rs.8.3 Cr. in FY2020 as against Rs.17.4 Cr. in FY2019) coupled with lower acquisitions (Rs.47.5 Cr. in FY2020 as against Rs.624.5 Cr in FY2019) and uncertainty associated with the resolution of stressed assets in the current operating environment which lumpy cash flows. As per discussions with management, Acuité understands that the company is actively engaging with various parties, including QBs for debt acquisition.

About the company

Incorporated in 2002, Alchemist Asset Reconstruction Company Limited (AARCL) is a Delhi-based Company engaged in acquiring distressed assets from banks and financial institutions and resolving them through appropriate resolution strategies. The company is licensed with RBI as Securitization and Asset Reconstruction Company since 2007 and was started by Mr. Alok Dhir and family who hold ~50 per cent as on March 31, 2020. 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.

Analytical Approach

Acuité has adopted a standalone approach on AARCL's business and financial risk profile for arriving 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 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.

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 QBs for their acquisitions.

Weaknesses

Moderation in operating performance; earning profile susceptible to timely resolution of assets:

AARCL's revenue profile comprises income from management fees, income from investments in financial assets and investments in security receipts. The company reported total income of Rs.31.6 Cr. in FY2020 as against Rs.37.3 Cr. in FY2019. The company reported Profit after Tax (PAT) of Rs.8.3 Cr in FY2020 as against Rs.17.4 Cr in FY2019. The company's earnings have declined, although recovery momentum is intact (Rs.61.3 Cr. in H1FY21, Rs.99.3 Cr. in FY2020 and Rs.124.1Cr. in FY2019), its acquisitions declined in FY2020 to Rs.47.5 Cr. as against Rs.624.5 Cr. in FY2019.

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 about Rs.2069 Cr. as on March 31, 2020 is across 17 industries of which top four industries contribute ~69 percent. The top four industries are Real Estate (27.3 per cent), Hospitality (15.1 per cent), Energy (14 per cent) and Textile (13 per cent). The current environment with economic contraction signs is not conducive for an effective and speedy resolution of stressed assets.

Acuité 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 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. While the regulation has allowed QBs 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 a 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. The intense competition from other ARC's will also add to the headwinds in achieving the growth in scale of operations.

Rating Sensitivities

- Increase in gearing above 1 times
- Resolution of distressed assets
- Single Sectorial concentration beyond 35 per cent
- Changes in regulatory environment

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity profile is adequate with no repayments in the next two years towards term debt. This is because the acquisitions are funded through a mix of equity, QFII funds and promoter funds with largely no scheduled payments. The cash flows of ARCs are generally uneven and a portion of revenues will depend on inflows from the resolution of SRs and upside revenues. Any challenges in ensuring steady revenue flow through timely resolution of the distressed assets will impact the liquidity buffers.

Outlook: Stable

Acuite believes that AARCL 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 sustained improvement in its earnings profile and growth in acquisition of distressed assets and its successful resolution. Conversely, the outlook may be revised to 'Negative' if there is persistent decline in acquisition of distressed assets 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	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	366.92	376.75
Total Income	Rs. Cr.	23.81	32.49
PAT	Rs. Cr.	8.28	17.41
Net Worth	Rs. Cr.	161.01	149.26
Return on Average Assets (RoAA)	(%)	2.23	5.53
Return on Average Net Worth (RoNW)	(%)	5.34	12.39
Total Debt/Tangible Net Worth (Gearing)	Times	0.72	0.99
Gross NPAs	(%)	NA	NA
Net NPAs	(%)	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

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities:- <https://www.acuite.in/view-rating-criteria-44.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
16-Oct-19	Secured Overdraft	Long Term	25.00	ACUITE A/Stable (Assigned)
	Proposed Bank Facility	Long Term	75.00	ACUITE A/Stable (Assigned)

***Annexure – Details of instruments rated**

Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs Cr.)	Ratings/Outlook
Secured Overdraft Not	Not Available	Not Applicable	Not Available	25.00	ACUITE A/Stable (Reaffirmed)
Proposed Bank Facility	Not Available	Not Applicable	Not Available	75.00	ACUITE A/Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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