

Press Release

Alchemist Asset Reconstruction Company Limited

March 28, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE A Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 continues to reflect Alchemist Asset Reconstruction Company Limited's (AARCL) experienced management & Board, support from marquee investors its operational track record of over a decade in the asset reconstruction industry.

The rating also factors in healthy capitalization with CAR at 46.68% as on December 31, 2021, comfortable profitability metrics in addition to consistent recoveries. During 9MFY22, AARCL recovered assets amounting to Rs.85.74 Crore vis a vis Rs.164.51 Crore during FY21 [P.Y.: Rs.99.33 Crore]. These strengths are partially offset by stagnant AUM, industry concentration towards real estate and hospitality sectors and uncertainties/ delays associated with the resolution of stressed assets in the current operating environment. While Acuite takes cognizance of improved profitability metrics during FY21 and 9MFY22, AARCL may report credit costs/write-offs in the near to medium term pertaining to lower recoveries in some trusts acquired during 2013-2015 period. Going forward, AARCL's ability to profitably grow and achieve timely resolution of assets along with changes in promoter shareholding are key credit monitorables.

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

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

Key Rating Drivers

Strength

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. 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. 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.

Financial performance

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.36.69 Cr. in FY2021 as against Rs.31.63 Cr. in FY2020. However, in 9MFY2022, the total income stood at Rs.20.54 Cr. due to subdued growth in AUM. The company reported Profit after Tax (PAT) of Rs.13.57 Cr. in FY2021 as against Rs.8.28 Cr. in FY2020. AARCL recovered assets amounting to Rs.85.74 Crore vis a vis Rs.164.51 Crore during FY21 [P.Y.: Rs.99.33 Crore]. 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.

Weakness

Industry concentration risks; business profile susceptible to timely resolution of assets:

The company's AUM of Rs.1994.42 Cr. as on March 31, 2021 is across 17 industries of which top four industries constitute 69.51 percent. The top four industries are Real Estate (29.14 per cent), Hospitality (15.56 per cent), Energy (12.50 per cent) and Textile (12.31 per cent). AARCL's acquisition strategy is sector agnostic with a focus on aggregation and consolidating the share in the overall debt of the acquisition. Its acquisitions declined further in FY2021 to Rs.24.25 Cr. as against Rs.47.46 Cr. in FY2020, resulting a decrease in AUM of Rs.1994.42 Cr. in FY2021 against Rs.2069.70 Cr. in FY2020. However during 9MFY2022 there's uptick in acquisitions at Rs.81.80 Cr. bringing the AUM up to Rs.2023.79Cr. Any signs of economic contraction in near to medium term would not be conducive for effective and speedy resolution of stressed assets for ARC's like AARCL.

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 Sensitivity

- Changes/ dilution in promoter shareholding
- Increase in gearing above 1 times
- Resolution of distressed assets & financial performance
- Single Sectorial concentration beyond 35 per cent
- Changes in regulatory environment

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity profile is adequate as on December 31, 2021 with no repayments in the next two year towards term debt this is because the acquisitions are funded through a mix of equity, QB 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

Acuité 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.

Other Factors affecting Rating

Not Applicable

Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	365.51	366.92
Total Income	Rs. Cr.	30.26	23.81
PAT	Rs. Cr.	13.57	8.28
Net Worth	Rs. Cr.	174.56	161.01
Return on Average Assets (RoAA)	(%)	3.71	2.23
Return on Average Net Worth (RoNW)	(%)	8.09	5.34
Total Debt/Tangible Net Worth (Gearing)	Times	0.68	0.72
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):

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Asset Reconstruction Companies: <https://www.acuite.in/view-rating-criteria-85.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Dec 2020	Secured Overdraft	Long Term	25.00	ACUITE A Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	75.00	ACUITE A Stable (Reaffirmed)
16 Oct 2019	Proposed Bank Facility	Long Term	75.00	ACUITE A Stable (Assigned)
	Secured Overdraft	Long Term	25.00	ACUITE A Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	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 8,850 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 Kanjurmarg, Mumbai.

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