



Press Release
ALCHEMIST ASSET RECONSTRUCTION COMPANY LIMITED
June 23, 2023
Rating Downgraded

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

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE A**' (read as **ACUITE A**) on the Rs. 100.00 crore bank facilities of Alchemist Asset Reconstruction Company Limited (AARCL). The outlook remains '**Stable**'.

Rationale for downgrade:

The rating has been downgraded due to continued moderation in the earnings profile as a result of elevated credit costs. The company reported total income of Rs. 35.35 crore in FY2023 (prov.) as against Rs. 39.72 crore in FY2022. The impairment/credit cost for FY22 and FY23 was Rs. 21.78 crore and Rs. 9.21 crore (prov.), respectively.

Accordingly, the PAT declined at a CAGR of -36.62 percent from FY21 to FY23. Further, owing to the degrowth in the AUM as well as minimal acquisitions during FY22 and FY23, the core income remained subdued. The rating continues to factor in the industry concentration in the real estate and hospitality sectors, uncertainties, and delays associated with the resolution of stressed assets in the said sectors. Further, Acuite also takes note of the high share of SRs outstanding for the accounts acquired during FY16 and FY17 (35 percent of the AUM as of March 31, 2023), with an end date of FY24 and FY25, respectively. Hence, the ability of the company to resolve the said assets within the stipulated timelines would be a key monitorable.

The rating, however, continues to take into account AARCL's experienced management and board, support from marquee investors, and its operational track record of over a decade in the asset reconstruction industry. The rating also factors in healthy capitalization metrics as reflected by CRAR and gearing levels of 59.99 percent and 0.48 times, respectively, as of March 31, 2023. Going forward, any changes in promoter shareholding and movement in capitalization buffers would remain key monitorables.

Further, Acuite has taken cognizance of the Income Tax Department's search and seizure operations conducted in October, 2022, wherein the final assessment by the department is awaited. As per AARCL, there have been no further inquiries regarding the said matter, and the operations remain unaffected. Acuite shall keep monitoring the situation for its implications on the operational and financial performance of the company.

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 ~46 per cent as on March 31, 2023. 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 (some owned by Mr. Dhir).

Analytical Approach

Acuité 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. 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.

Comfortable capitalization

The company's capital position is comfortable as reflected by CRAR of 59.99 percent as on March 31, 2023 (P.Y: 49.98 percent). The increase in CRAR is attributable to decrease in risk weighted assets for the year. Further, the gearing remained low at 0.48 times as on March 31, 2023 as against 0.51 times as on March 31, 2022.

Weakness

Earnings profile affected due to elevated credit costs

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. 35.35 Cr. in FY2023 (prov.) as against Rs. 39.72 Cr. in FY2022. Owing to the degrowth in the AUM as well as minimal acquisitions during FY22 and FY23, the core income remained subdued. The company reported Profit after Tax (PAT) of Rs.5.45 Cr. in FY2023 (prov.) as against Rs.1.88 Cr. in FY2022 [Rs. 13.57 Cr. in FY21]. In FY22, the company incurred a total impairment cost (including impairment due to rating transition) of Rs. 21.78 Cr. as a result of write-offs undertaken due to expiry of 8 years. The same was Rs. 9.21 Cr. in FY23 (prov.).

AARCL recovered assets amounting to Rs. 274.69 Crore vis a vis Rs.120.66 Crore during FY22 [P.Y.: Rs. 165.47 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 controlling credit costs will be attained by timely and successful resolution of the acquired assets.

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

The company's AUM of Rs.1788.64 Cr. as on March 31, 2023 is across 17 industries of which top four industries constitute ~70 percent. The top four industries are Real Estate (31.58 per cent), Hospitality (13.17 per cent), Energy (13.94 per cent) and Textile (11.15 percent). 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 FY2023 to Rs.36.32 Cr. as against Rs.81.80 Cr. in FY2022, resulting a decrease in AUM of Rs.1,788.64 Cr. in FY2023 against Rs.2,003.32 Cr. in FY2022. 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

AARCL is subject to material covenants as stipulated by its lender.

Liquidity Position

Adequate

The company's liquidity profile is adequate as on March 31, 2023. 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

Particulars	Unit	FY23 (Provisional)	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	302.10	352.34	365.51
Total Income*	Rs. Cr.	25.00	32.06	30.26
PAT	Rs. Cr.	5.45	1.88	13.57
Net Worth	Rs. Cr.	181.88	176.44	174.56
Return on Average Assets (RoAA)	(%)	1.67	0.52	3.71
Return on Average Net Worth (RoNW)	(%)	3.04	1.07	8.09
Debt/Equity	Times	0.48	0.51	0.68
Gross NPA	(%)	NA	NA	NA
Net NPA	(%)	NA	NA	NA

*Total income is net of interest expense

NA - Not applicable

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Mar 2022	Proposed Bank Facility	Long Term	75.00	ACUITE A Stable (Reaffirmed)
	Secured Overdraft	Long Term	25.00	ACUITE A Stable (Reaffirmed)
31 Dec 2020	Secured Overdraft	Long Term	25.00	ACUITE A Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	75.00	ACUITE A Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A- Stable Downgraded
Union Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A- Stable Downgraded
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.00	ACUITE A- Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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