



Press Release
Alchemist Asset Reconstruction Company Limited
September 20, 2024
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	-	-

Rating Rationale

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

Rationale for the rating

The reaffirmation of the rating to the bank loan facilities of Alchemist Asset Reconstruction Company Limited (AARCL) has continued to take into consideration, including the company's skilled management and promoters, steady AUM levels and robust recoveries, comfortable capitalization, and overall gearing. Moreover, the financial performance of AARCL has seen a sudden jump in profitability levels due to major recovery from two accounts which resulted in total income (excluding interest expenses and other income) to reach Rs 102.96 Cr. in FY24 (Prov.) from Rs 35.42 Cr. in FY23. The PAT also increased to Rs 13.63 Cr. in FY24 (Prov.) from Rs 5.44 Cr. in FY23. The ratings are limited, though, by the segments record of resolving stressed assets, fierce competition, and the potential of unfavourable revisions to the system governing distressed assets.

The rating continues to take into account AARCL's 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 88.50 percent and 0.05 times, respectively, as of March 31, 2024 (Prov.) . 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 was completed and no additional tax liability has

been levied by the income tax department. Acuité shall keep monitoring the situation for its implications on the operational and financial performance of the company. 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 ~38.62 per cent as on March 31, 2024. The remaining stake is held by DMI Finance Private Limited (holding 11.52 per cent), Al Zawawi Group (holding 6.62 per cent) along with other high Networth Individuals and Corporates (some owned by Mr. Dhir).

Unsupported Rating

Not Applicable

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 sponsored by Mr. Alok Dhir and is in the business of acquisition and resolution of stressed assets since 2007. Mr. Alok Dhir is 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 88.50 percent as on March 31, 2024 (prov) (P.Y: 59.39 percent). The increase in CRAR is attributable to decrease in risk weighted assets for the year. Further, the gearing remained low at 0.05 times as on March 31, 2024 (prov) as against 0.48 times as on March 31, 2023. Moreover Mr. Alok Dhir infused additional capital of Rs 7 Cr. in FY24.

Improved Earnings profile

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. 99.56 Cr. in FY2024 (prov.) as against Rs. 25.09 Cr. in FY2023. The company reported Profit after Tax (PAT) of Rs.13.63 Cr. in FY2024 (Prov) as against Rs.5.44 Cr. in FY2023. 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.

Weakness

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

The company's AUM of Rs.1267.99 Cr. as on March 31, 2024(prov) is across 17 industries of which top four industries constitute ~56.3 percent. The top four industries are Real Estate (11.82 per cent), Hospitality (14.52 per cent), Energy (19.60 per cent) and Textile (10.36 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 improved in FY2024 to Rs.218.15 Cr. (prov)as against Rs.36.32 Cr. in FY2023. However a decrease in AUM from Rs.1,788.64 Cr. in FY2023 to Rs.1267.99 Cr. in FY2024 (prov) indicates that the recoveries/resolution of these cases has been much larger than the acquisitions which is reflected in the higher income and profitability levels. 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 QBs 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
- Resolution of distressed assets & financial performance
- Single sectorial concentration beyond 35 per cent
- Changes in regulatory environment

Liquidity Position

Adequate

The company's liquidity profile is adequate as on March 31, 2024. 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

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Provisional)	FY23 (Actual)	FY22 (Actual)
Total Assets*	Rs. Cr.	227.23	302.18	352.34
Total Income**	Rs. Cr.	99.56	25.09	32.06
PAT	Rs. Cr.	13.63	5.44	1.85
Net Worth	Rs. Cr.	202.51	181.88	176.44
Return on Average Assets (RoAA)	(%)	5.15	1.66	0.52
Return on Average Net Worth (RoNW)	(%)	7.09	3.04	1.05
Debt/Equity	Times	0.05	0.48	0.51
Gross NPA	(%)	NA	NA	NA
Net NPA	(%)	NA	NA	NA

*Net of Intangible assets

**Total income is net of interest expense

NA - Not applicable

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

Not applicable

Any other information

None

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
23 Jun 2023	Secured Overdraft	Long Term	12.00	ACUITE A- Stable (Downgraded from ACUITE A Stable)
	Proposed Long Term Bank Facility	Long Term	75.00	ACUITE A- Stable (Downgraded from ACUITE A Stable)
	Term Loan	Long Term	13.00	ACUITE A- Stable (Downgraded from ACUITE A Stable)
28 Mar 2022	Secured Overdraft	Long Term	25.00	ACUITE A Stable (Reaffirmed)
	Proposed Long Term 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 avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	77.44	ACUITE A- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE A- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2027	Simple	10.56	ACUITE A- Stable Reaffirmed

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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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