

Press Release

Invent Asset Securitisation and Reconstruction Private Limited

April 07, 2021



Rating Assigned

Total Bank Facilities Rated	Rs.200.00 Cr.
Long Term Rating	ACUITE BBB/ Stable (Assigned)

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.200.00 Cr. bank loan facilities of Invent Asset Securitisation and Reconstruction Private Limited (IASRPL). The outlook is '**Stable**'.

The rating takes into account IASRPL's established position in the asset reconstruction industry, presence of institutional investors and their demonstrated support in the form of regular capital infusions. IASRPL is the fifth largest asset reconstruction company (ARC) in the country with SRs outstanding of Rs.4,118 Cr. as on February 28, 2021. The rating also factors in the company's healthy recovery track record (Rs.811 Cr during 11FY2021, Rs.199 Cr. during FY2020 and Rs.153 Cr. in FY2019) with a recovery rate of 57% till February 28,2021. These strengths are constrained by high leverage levels albeit significantly reduced at 3.66 times as on March 18,2021 (8.03 times as on March 31,2020), moderate capitalization levels with CAR at 16.80% (Provisional) as on March 25,2021 (9.33% as on March 31,2020) and volatile earnings profile with profits (PAT) of Rs.3.20 Cr. (Provisional) YTD March 18,2021 (Losses of Rs.18.45 Cr. in FY2020). Going forward, IASRPL's ability to maintain/improve capitalization levels besides maintaining steady growth in revenues through successful resolution of distressed assets will be key monitorables.

About the company

Incorporated in 2003, Invent Assets Securitisation and Reconstruction Company Private Limited (IASRCPL) is a Mumbai based ARC that commenced its operations in 2009 after receiving license from RBI in 2008. The ARC focuses on Small Medium Enterprises (SME) segment and follows sector agnostic approach with its exposure spread across varied industries including textile, Iron and Steel, Real Estate, Manufacturing, Automobiles, Hospitality, among others. The ARC is sponsored by West End Investment and Finance Consultancy Pvt Ltd. which along with its group companies held 53% stake in the company as on February 28, 2021. IASRPL reported outstanding Security Receipts (SRs) of Rs.4,118 Cr. as on February 28,2021 (Rs.4,807 Cr. as on March 31,2020).

Analytical Approach

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

Key Rating Drivers

Strengths

Strong institutional investors along with domain expertise of key promoters:

IASRPL is sponsored by West End Investment and Finance Consultancy Pvt Ltd. (WEIFCPL) which along with its group companies held 53% stake in the company as on February 28,2021. IASRPL benefits from sponsor support in the form of capital infusion, both equity as well as debt. On the debt front, the ARC has secured funding from WEIFCPL which comprised 57% (Provisional) of total debt as on March 18,2021 with extendable maturity. The ARC is promoted by leading professionals

including Mr. G. N. Bajpai, former Chairperson of Securities and Exchange Board of India (SEBI) and also Life Insurance Corporation of India (LIC), Mr. M. N. Singh, IPS, former Commissioner of Police, Mumbai and Mr. Pankaj Gupta, a Chartered Accountant with vast experience in banking, insurance, merchant banking and financial services. Apart from the promoter directors, the board members of the company consists of eminent directors such as Mr. Raj Bharadwaj, former Chairman of Life Insurance Corporation , Mr. G. Gopalkrishna and Mr. Eugene Karthak, former executive directors of RBI with over three decades of experience with RBI . It has marquee investors like Canara Bank, Bank of India, Central Bank of India, and DBS Bank collectively holding 20.11% as on February 28,2021. The management team comprises of seasoned professionals in various domains such as acquisition, resolution, legal and compliance, monitoring, among others.

Acuité believes that IASRPL 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.

Recovery track record:

IASRPL commenced ARC business in 2009 and reported outstanding SRs of Rs.4,119 Cr. as on February 28,2021 (Rs.4,807 Cr. as on March 31,2020). The ARC follows sector agnostic approach with its exposure spread across varied industries including textile, Iron and Steel, Real Estate, Manufacturing, Automobiles, Hospitality among others, with top 5 industries, namely Textile, Iron and Steel, Real Estate and Housing, Manufacturing and Chemical collectively accounting for 64% of overall SRs outstanding as on February 28,2021 (63% as on March 31,2020).The ARC maintained healthy recovery track record (Rs.811 Cr during 11FY2021, Rs.199 Cr. during FY2020 and Rs.153 Cr. in FY2019). It's recovery rate, in terms of its share in investments till February 28,2021, stood at 57%.

Weaknesses

Moderate Capitalisation:

IASRPL reported decline in networth to Rs.140.49 Cr. as on March 31,2020 from Rs.158.94 Cr. as on March 31,2019 due to losses of Rs.18.45 Cr. reported during FY2020 led by credit provisioning of Rs.43.43 Cr. Although the ARC maintained networth above regulatory requirement, significant losses for FY2020 along with sharp rise in risk weighted assets (i.e SR Investments) on the back of large acquisition which resulted in Capital Adequacy Ratio (CAR) declining to 9.33% as on March 31,2020 from 22.15% as on March 31,2019. Since this acquisition was debt funded, it led to significant increase in gearing to 8.03 times as on March 31,2020 (2.74 times as on March 31,2019).

During 11MFY2021, the company recovered in excess of the aforementioned acquisition and repaid corresponding debt, thereby resulting in improved CAR at 16.80% (Provisional) as on March 25, 2021 and gearing of 3.66 times (Provisional) as on March 18, 2021.

Acuité believes that while the company is exploring various options for bolstering its capitalisation levels including infusion by existing shareholders and as well as bringing in new investors, its ability to maintain/improve capitalization levels and thereby increase business volumes will be key monitorables.

Inherent challenges in the Asset reconstruction business:

IASRPL is likely to continue to face challenges given the inherent uncertain and time consuming nature of the recoveries asset reconstruction business. 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, incentivizing the banks to go for cash deals and tilting the balance in favor of those ARCs who are able to acquire assets for direct cash conditions as against issuance of security receipts.. While the regulation has allowed investment by QBs, the ability of any

ARC to tap this route will depend to a large extent on their demonstrated track record of recovery. 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.

Further, earnings profile of an ARC is susceptible to the volatility inherent in the recoveries from acquired assets along with asset quality-related challenges as reflected in recent performance of IASRPL. For FY2020, the ARC reported losses of Rs.18.45 Cr. as against PAT of Rs.2.37 Cr. in FY2019 primarily on account of additional provisioning of Rs.41.42 Cr. for FY2020 in respect of certain accounts to meet regulatory requirements [Rs.19.29 Cr. for FY2019]. For YTD March 18,2021, earnings profile improved driven by higher recoveries coupled with provision writebacks of about Rs.5 Cr. in the aforementioned accounts thereby resulting in profits (PAT) of Rs.3.20 Cr. (Provisional). This was partially offset by rise in finance costs to Rs.69.75 Cr. YTD March 18,2021 from Rs.44 Cr. during FY2020.

Given the scale up of the operations of IASRPL in recent years, the sustainability of the recovery performance will be visible only over the medium term, especially as NPA resolution is a long process and is linked to level of industrial and economic activity in the country, which will also have a bearing on earnings profile.

Rating Sensitivities

- Movement in capitalisation levels
- Delayed resolution of distressed assets impinging recoveries and thereby earnings profile
- Changes in regulatory environment governing ARCs

Material Covenants

None

Liquidity Position: Adequate

Company reported cash and cash equivalents of Rs.21 Cr. as on March 18,2021 and its debt obligations for next six months (from March 18,2021) stood at Rs.18 Cr. The company's liquidity profile is adequate in medium term as the acquisitions are mainly funded through a mix of equity, QB funds and promoter funds with no large scheduled repayments in the near term. 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 IASRPL 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 sustainable improvement in its earnings profile, capitalisation levels, growth in acquisition of distressed assets and its successful resolution. Conversely, the outlook may be revised to 'Negative' if there is persistent decline in capitalisation levels, acquisition of distressed assets due to lack of capital, or headwinds in the event of changes in the regulatory framework that might adversely affect the business.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1381.18	722.82
Total Income*	Rs. Cr.	26.70	33.67
PAT	Rs. Cr.	(18.45)	2.37
Net Worth	Rs. Cr.	140.49	158.94
Return on Average Assets (RoAA)	(%)	(1.75)	0.33
Return on Average Net Worth (RoNW)	(%)	(12.32)	1.50
Total Debt/Tangible Net Worth (Gearing)	Times	8.03	2.74

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)

Not Applicable

*Annexure – Details of instruments rated

Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs Cr.)	Ratings/Outlook
Secured Overdraft Facility	31-Mar-16	Not Available	Not Available	50.00	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE BBB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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