

Press Release

Invent Asset Securitisation and Reconstruction Private Limited

July 01, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE BBB Reaffirmed Rating Watch with Developing Implication	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 ratings are placed '**under watch with developing implications**'.

Key Reason for Rating Watch with Developing Implications:

The rating watch with developing implications is on account of the Income tax raids and special audit conducted by RBI on IASRPL. Acuite has also taken note of the news reports on alleged suspicious transactions involving ARCs. Accordingly, Acuite has discussed the issue with the management and is in touch to understand further developments. Acuite will keep on monitoring the same for its implications on the operational and financial performance of the company.

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. 3,905 Cr. as on March 31, 2022. The rating also factors in the company's moderate recovery track record (Rs. 411.12 Cr during FY2022, Rs. 884.32 Cr during FY2021, Rs.199 Cr. during FY2020 and Rs.153 Cr. in FY2019). These strengths are constrained by moderate capitalization levels with CAR at 23.08% as on March 31, 2022 (16.80% as on March 25, 2021) and volatile earnings profile with profits (PAT) of Rs. 6.07 Cr. (provisional), Rs. 1.74 Cr. in FY21 (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 March 31, 2022.

IASRPL reported outstanding Security Receipts (SRs) of Rs. 3,905 Cr. as on March 31, 2022 as against Rs. 4,048.57 Cr. as on March 31, 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

Strength

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 March 21, 2022. IASRPL benefits from sponsor support in the form of capital infusion, both equity as well as debt. 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 March 31, 2022. 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. 3,905 Cr. as on March 31, 2022, Rs. 4,048.57 Cr. as on March 31, 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 65% of overall SRs outstanding as on March 31, 2022 (63.75% as on March 31, 2021). The ARC maintained moderate recovery track record (Rs. 411.12 Cr during FY2022, Rs.884.32 Cr during FY2021, Rs.199 Cr. during FY2020 and Rs.153 Cr. in FY2019).

Weakness

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. led by high provisioning of Rs.43.43 Cr. This coupled with sharp rise in risk weighted assets (i.e SR Investments) resulted in CAR breaching regulatory threshold of 15% to 9.33% as on March 31,2020 [22.15% as on March 31,2019]. However, the networth increased to 148.29 Cr. as on March 31, 2022 on account of profits made in FY21 and FY22 (prov.). CAR increased to 23.08 percent as on March 31, 2022 as against 16.80% as of March 25, 2021 led by decline in risk weighted assets (i.e SR investment). 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. For FY2020, the ARC reported losses of Rs.18.45 Cr. as against PAT of Rs.2.37 Cr. in FY2019. For FY21, the earnings profile improved driven by higher recoveries resulting in profits (PAT) of Rs. 1.74 Cr. In FY22, the company has reported a PAT (provisional) of Rs. 6.07 crores on account of moderate recoveries resulting to higher management fee income.

Given the scale up of the operations of IASRPL in recent years, the sustainability of the recovery performance will be visible 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 Sensitivity

- 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. ~50 Cr. as on March 31, 2022. 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:

Not Applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Provisional)	FY21 (Actual)
Total Assets	Rs. Cr.	657.15	759.22
Total Income*	Rs. Cr.	49.41	15.18
PAT	Rs. Cr.	6.07	1.74
Net Worth	Rs. Cr.	148.29	142.23
Return on Average Assets (RoAA)	(%)	0.86	0.16
Return on Average Net Worth (RoNW)	(%)	4.18	1.23
Debt/Equity	Times	2.48	3.51
Gross NPA	(%)	NA	NA
Net NPA	(%)	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

- 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
07 Apr 2021	Secured Overdraft	Long Term	50.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	150.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB Reaffirmed Rating Watch with Developing Implication
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE BBB Reaffirmed Rating Watch with Developing Implication

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuите.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuите.in
Yash Bhalotia Management Trainee-Rating Operations Tel: 022-49294065 yash.bhalotia@acuите.in	

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.