



Press Release

Prudent ARC Limited (PAL)

April 29, 2021

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Proposed Long Term Fund Based Facility	100.00	IVR A-/Stable Outlook (IVR SingleAMinus with Stable Outlook)	Assigned
	Total	100.00		

Ratings

Details of Facilities are in Annexure I

Detailed Rationale

The assigned rating derives strength from an experienced promoter & qualified management team, relatively higher haircut of the acquired portfolio with a healthy mix of cash/security receipts deals and growing scale of operations. The Rating also takes into the account that being an ARC, PRL is covered under SARFAESI Act, with a focused approach towards NPA resolution, the financials of the company reflects strong capitalisation along with comfortable gearing level. However, these strengths are partially offset by concentrated portfolio, and followed by sector specific risk factors such as poor track record of resolution of stressed assets in India, intense competition in the Asset Reconstruction sector, risk associated with any adverse changes in the distressed assets policy framework and vulnerability of earning profile of ARCs due to volatile nature cash flows.

Key Rating Sensitivities

Upward Factors

- Substantial increase in AUM, along with significant recoveries and redemptions, followed by an increase in the scale of operations coupled with stable revenue stream from asset management fees.

Downward Factors



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- Lower than expected acquisition of new assets, delay in resolutions of assets purchased in the past or more than expected rise in gearing and/or deterioration in capital adequacy.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter & qualified management team

PAL has an experienced management team headed by Mr Pradeep Goel who is an industrialist with more than 29 years of experience mainly in the field of Iron and Steel and is also Co-Chairman of ASSOCHAM National Council for ARC 's & Vice -Chairman of ARC Association. Apart from steel, Mr Goel is also experienced in establishment of businesses such as Power Projects – Thermal, Hydro & Solar and Pharmaceutical, Engineering, Ship-breaking, Real Estate etc. Mr Goel, is also supported by the second generation (son) Mr Aneesh Goel. Furthermore, the company is well supported by the team experienced professions where-in Mr. Sudhir Dayal, CEO who is a Retired General Manager from SBI with over 38 years of experience in the banking profession handling large value advances, resolution of stressed assets, corporate debt structuring, evaluation of stressed assets, negotiation and recovery, etc. The company is also well supported by Mr. Amarjit Kochar (GM – Legal) who is a Retired GM of Punjab & Sind Bank having 39 years of banking experience in Legal and recovery matters and Mr. G.L. Manchanda, (GM - Acquisition and Resolutions) having more than 40 years of banking experience with Union Bank of India of which 16 years of experience in recovery of NPAs. Further, the management team is guided by a highly experienced board of directors.

Relatively higher haircut of the acquired portfolio

Till December 31, 2020, cumulative assets acquired of the company stood at INR1978.10 Crore. Cost as a percentage of book value of assets acquired stood at around 44.65% (where book value of asset acquired is INR4429.99 Crore) for cumulative assets acquired as on December 31, 2021. Lower cash component and higher exposures in SRs have relatively higher yields than higher cash deals on account of regular fee based income on management of large trust assets wherein a significant portion of SRs are held by banks.



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Bidding and acquiring assets with higher discounts provides adequate cushion in case of lower than expected recovery.

Covered under SARFAESI Act, with a focused approach towards NPA resolution

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 introduced ARCs as intermediaries to buy NPAs from bank on payment of a part of acquisition cost in cash with the remaining cost being deferred. Present NPA laden banking scenario and high focus to solve the NPA problems indicates enormous opportunities for ARCs.

Growing Scale of operations and churning of acquired assets

The company was registered with the Reserve Bank of India as a Securitization and Asset Reconstruction company in August, 2016. Thus, the company has seen major growth in its assets acquired during past 2 years. The company started its operations with INR9.00 Crore asset. The investment comprising of financial assets acquired on its books scaled up and stood at INR600.34 Crore (Book Value INR1360.63 Crore) as of March 31, 2019 and finally up to INR1500.04 Crore (Book Value INR.2365.36 Crore) as of March 31, 2020, and as on December 31, 2020 stood at INR 1978.10 Crore (Book value INR4429.99 Crore). The AUM (including security receipts issued) was at INR571.50 Crore as on March 31, 2020. However, the operational track record remains limited.

Strong capitalisation and comfortable gearing

The promoters and associates infused funds in the form equity as on when required coupled with retention of profit into the business leading to improvement in tangible net worth of the company to INR124.43 Crore as on March 31, 2020 (March 31, 2018: INR103.48 Crore and March 31, 2019: INR118.04 Crore). As per the prudential norms, PAL is required to maintain capital adequacy of 15% however, the Capital adequacy ratio (CAR) as on March 31, 2020 was 84.68% giving sufficient headroom for growth. The company continues to have comfortable gearing of 0.36 times as on March 31, 2020 (0.17 times as on March 31, 2019).

Key Weaknesses



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Concentrated portfolio

The company has ~60% of its AUM in Assets related to steel sector which indicates portfolio concentration risk. However, the promoter's exposure to industry also gives him distinct advantage in early resolution. However, steep discount in acquiring these assets and adequate security cover provides comfort.

Poor track record of resolution of stressed assets in India

The Indian distressed assets market is still in a nascent stage with limited seasoning. The sector is gradually growing with more regulatory policies taking shape. Generally, the track record of resolution of stressed assets in India is poor. However, with the onset of the IBC (Insolvency and Bankruptcy Code) in India, the situation is very likely to improve.

Intense competition in the Asset Reconstruction sector:

There are ~28 registered ARCs in India, which manage more than Rs. 1 lakh Crore of AUM. The competition in the stressed asset market is on the rise with an increase in the number of players. Also, due to the change in the model of ARCs to more cash-based buying as against largely a security receipts-based model adopted earlier, big players may give stiff competition to smaller players.

Risk associated with any adverse changes in the distressed assets policy framework:

The Company is exposed to risk emerging out of any adverse changes in the distressed assets policy framework. Despite having sufficient asset acquisition and resolution policy framework, ARCs might keep on confronting difficulties given the inherent nature of the business and the asset reconstruction industry.

Vulnerability of earning profile of ARCs due to volatile nature cash flows:

The recoveries might not always be as estimated, as the resolution of stressed assets is subject to many factors. Due to nature of its business the recoveries from acquired assets is



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difficult to predict. However, PAL has acquired financial assets with healthy mix of cash/security receipts which mitigate the risk to some extent.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Non-Banking Finance Companies

Financial Ratios & Interpretation (Financial Sector)

Liquidity – Adequate

The net worth of Prudent ARC has increased during FY20 to INR124.43Crore. The proposed credit lines will also provide liquidity & cushion for further expansion. The cash and equivalents stood at INR32.34 Crore (including Fixed Deposit of INR30.39 Crore) as on March 31, 2020

About the Company

Prudent ARC Limited (PAL) was incorporated in September, 2011 and is Delhi based company promoted by Mr. Pradeep Goel. The company subsequently received registration to commence Asset Reconstruction business vide RBI Registration certificate dated August 3, 2016.

Financials: Standalone

For the year ended/ As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	7.99	16.46
Net Interest Income	(0.58)	(5.21)
PAT	0.21	2.36
Total Debt	19.84	44.53
Tangible Net-worth	118.04	124.43
Ratios		
PAT Margin (%)	2.69	14.37
Overall Gearing Ratio (x)	0.17	0.36
Total CAR (%)	93.48	84.68

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:NA



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Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019- 20	Date(s) & Rating(s) assigned in 2018- 19
1.	Proposed Fund Based Facility	Long Term	100.00	IVR A-/Stable Outlook	--	--	--

Status of non-cooperation with previous CRA: None

Any other information: None

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Long Term Fund Based Facility	-	-	-	100.00	IVR A-/Stable Outlook

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lenders-PAL-29-04-21.pdf>