



Press Release

CFM Asset Reconstruction Private Limited [CFM ARC]

December 28, 2021

Rating

Instrument / Facility	Amount (INR Crore)	Rating	Previous Rating	Rating Action
<u>Long Term Fund based facilities</u> Term Loan	51.27	IVR BBB+/ Credit Watch with Negative Implication [IVR Triple B Plus under Credit Watch with Negative Implications]	IVR A-/ Positive Outlook [IVR A Minus with Positive Outlook]	Downgraded from IVR A-/ Positive Outlook
<u>Long Term Fund based facilities</u> Proposed Fund based limit	73.73	IVR BBB+/ Credit Watch with Negative Implication [IVR Triple B Plus under Credit Watch with Negative Implications]	IVR A-/ Positive Outlook [IVR A Minus with Positive Outlook]	Downgraded from IVR A-/ Positive Outlook
<u>Short Term Fund based facilities</u> Secured Overdraft	50.00	IVR A2 [IVR A Two]	IVR A2+ [IVR A Two Plus]	Downgraded from IVR A2+
Total	175.00			

Details of facilities are in Annexure 1

Rating Action

In light of the recent media news, wherein Income Tax Department carried out search and seizure operations on four Asset Reconstruction Companies (ARCs) which included CFM Asset Reconstruction Pvt. Limited. Infomerics Ratings have taken an assessment of the likely impact of the same on the company's business operations and financial risk profile going forward and accordingly downgraded the ratings and put it under Credit Watch with Negative Implications.



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Infomerics shall continue to closely monitor the status update of the Income Tax Authorities' findings and any adverse impact of the same on the company's operational performance and liquidity position.

Detailed Rationale

The rating assigned to the bank facilities of CFM Asset Reconstruction Private Limited (CFM ARC) derives strength from experienced promoter & qualified management team, growth in AUM, improved revenue & PAT margin and strong capitalization and comfortable gearing. The rating is however constrained by skewed growth in AUM portfolio, major acquisitions being in FY21, 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 of cash flows.

Key Rating Sensitivities:

Upward Factors:

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

Downward Factors:

- Any unfavorable findings by the Income Tax Authorities thereby impacting the operational performance and liquidity profile.
- Lower than expected acquisition of new assets, delay in resolution of assets purchased in the past or more than expected rise in gearing and/or deterioration in capital adequacy.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter & qualified management team

The Company has veteran bankers & financial advisors on their board, having vast experience in their respective fields and holding various leadership positions & directorships to their credit. CFM ARC has a four-member executive committee (EC) comprising of industry leaders and veterans to take decisions on stressed assets acquisition and resolution proposals.

Growth in AUM

The Company's overall AUM has been constantly increasing year after year from INR 721.99 Crore as at FY18 to INR 1288.55 Crore as at FY19, further to INR 1784.41 Crore as at FY20 and INR 3020.62 Crore as at FY21. The company has projected to increase its AUM supported by substantial growth in acquisitions.

Improved revenue & PAT margin

The total revenue of the company has witnessed significant improvement in FY21 driven by an increase in management fees, recovery incentive, profit on sale of financial assets/ SRs. The revenue increased from INR ~47 Crore in FY20 to INR 103 Crore in FY21, indicating a growth of 116%. The PAT margin of the company remained healthy at ~14% in FY19 & FY20 and further improved to ~18% in FY21.

Strong capitalization and comfortable gearing

The promoters and associates infused funds in FY21 in the form of Equity of INR 5 Crore and Compulsorily Convertible Preference shares of INR 5 Crore. The CAR stood at 24.94% in FY20 and 21.13% in FY21 against regulatory requirement of 15%. The overall gearing has remained comfortable at 1.32x as at FY20 and 1.22x as at FY21.



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Key Rating Weaknesses

Any adverse findings by Income Tax Department

The Income Tax Authorities had undertaken search and seizure operations during the period December 08th till December 12th, 2021 at the company's office premises. While the outcome of the search carried out is under scrutiny by the IT Department, any unfavourable findings, could have an adverse impact on the future business operations and overall liquidity profile. This remains to be a key rating sensitivity factor and Infomerics shall continue to closely monitor the same.

Skewed growth in AUM portfolio, major acquisitions being in FY21

The majority of the assets were acquired in FY21, i.e. almost 53% (42% in FY20). The recoveries and redemptions of these recently acquired assets will be visible in the coming years. Timely resolution of these assets will be key monitorable.

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.



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Vulnerability of earning profile of ARCs due to volatile nature of 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 difficult to predict.

Analytical Approach: Standalone

Applicable Criteria:

- Rating methodology for Non-Banking Finance Companies
- Financial ratios and Interpretation (Financial Sector)

Liquidity: Adequate

The Net Worth of CFM ARC increased during FY21 to INR 161.58 Crore. The proposed credit lines will also provide liquidity & cushion for further expansion. The cash and cash equivalents stood at INR 68.81 Crore (including Fixed Deposits of INR 42.11 Crore) as on March 31, 2021.

About the company

CFM Asset Reconstruction Pvt. Ltd. ("CFM ARC" or the "Company") was incorporated on 30th July 2015 and has successfully secured Asset Reconstruction Company license on 3rd Aug 2016 from the Reserve Bank of India ("RBI") under Securitization and Reconstruction of Financial Asset and Enforcement of Security Interest Act 2002 (SARFAESI Act).

CFM ARC is in the business of Acquisition and Resolution of Stressed Financial Assets from banks, financial institutions and other Qualified sellers. The company has a focused and specialized approach to resolve and recover Stressed Assets in SME, MSME and mid-corporate and retail sectors. The Company offers an opportunity to Banks/Financial Institutions to recover the best possible value from the Stressed Assets thereby unlocking their Capital.



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Financials [CFM ARC]

For the year ended/ As on*	INR in Crore	
	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Income	47.54	102.80
PAT	6.69	18.55
Total Debt	175.84	197.65
Tangible Net Worth	132.77	161.58
PAT margin (%)	14.08	18.04
Overall Gearing Ratio (x)	1.32	1.22
Total CAR (%)	24.94	20.95

* Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: Nil

Any other information: Mr. Malay Mukherjee who is a member of the Rating Review Committee at Infomerics is also on the Board of CFM Asset Reconstruction Private Limited. However, Mr. Mukherjee did not participate in the entire rating exercise, including the rating decision.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2021-22)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Rating assigned in 2021-22 (Dated Oct. 07, 2021)	Rating assigned in 2020-21	Rating assigned in 2019-20
Long Term Fund based facilities	Term Loan	51.27	IVR BBB+/ Credit Watch with Negative Implication	IVR A-/ Positive Outlook	--	--
Long Term Fund based facilities	Proposed	73.73	IVR BBB+/ Credit Watch with Negative Implication	IVR A-/ Positive Outlook	--	--



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Short Term Fund based facilities	Secured Overdraft	50.00	IVR A2	IVR A2+	--	--
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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 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Action
1	<u>Long Term Fund based facilities</u> Term Loan I Term Loan II	--	--	Dec-2022 Dec-2023	22.69 8.58	IVR BBB+/ Credit Watch with Negative



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	Term Loan III			Jun-2025	20.00	Implication
2	<u>Long Term Fund based facilities</u> Proposed fund based limit	--	--	--	73.73	IVR BBB+/ Credit Watch with Negative Implication
3	<u>Short Term Fund based facilities</u> Secured Overdraft	--	--	--	50.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/CFM-Asset-Reconstruction-lenders-dec21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable.

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr. No.	Instrument	Complexity Indicator
1	Term Loan	Simple
2	Proposed fund based limit	Simple
3	Secured Overdraft	Simple

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.