

Press Release

Alchemist Asset Reconstruction Company Limited (AARCL)

February 22, 2023

Ratings

Ratings	A	D. C.	D : 11 : 1	0		
Instrument / Facility	Amount	Ratings	Rating	Complexity		
	(Rs. crore)		Action	<u>Indicator</u>		
Proposed Non-	100.00	IVR A-/	Assigned	Simple		
Convertible		Stable				
Debentures (NCDs)		(IVR Single A minus with				
		Stable Outlook)				
Fund Based –	75.00	IVR A-/	Assigned	Simple		
Proposed Long Term		Stable				
Loans		(IVR Single A minus with				
		Stable Outlook)				
Fund based – Short	25.00	IVR A2+	Assigned	Simple		
Term Facility –		(IVR A Two Plus)				
Secured Over Draft		00				
Total		200.00				
		(Rupees Two Hundred Crores only)				

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of ratings to the bank loan facilities/non-convertible debentures of Alchemist Asset Reconstruction Company Limited (AARCL) has taken into consideration, the experienced promoters and management, stable AUM levels and healthy recoveries, comfortable capitalisation and gearing levels. However, the ratings are constrained by poor track record of resolution of stressed assets in India, intense competition and risk associated with any adverse changes in the distressed assets policy framework.

Further, the rating also considers the recent Income Tax Department's search and seizure operations wherein now the matter has been taken over by Income Tax Assessment unit and that the final assessment is still pending. As on date, there are no inquiries from Income Tax Department and no demand has been raised. Infomerics shall continue to closely



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monitor the status update of assessment undertaken by the Income Tax Assessment unit and any adverse impact of the same on the company's financial risk profile.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

- 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.
- Any adverse findings from the Income Tax department impacting the overall performance of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management team

AARC is promoted by Mr. Alok Dhir, a Chartered Accountant and Lawyer having ~4 decades of experience in corporate commercial and civil law with special focus on Corporate and Financial Restructuring, Insolvency Laws, Takeovers, M&A, Banking Law, Real Estate, PE transactions, turning around of financially stressed entities in the country and issues related to Asset Reconstruction & Securitization. Mr. Dhir and his family hold 65.20% stake in the company as on 31 December 2022. AARC is headed by Mr. Satpal Kumar Arora (MD and CEO) who has extensive experience of ~4 decades in BFSI sector. The Company has veteran bankers & industry experts on their board, having vast experience in their respective fields and holding various leadership positions & directorships to their credit.

Stable AUM levels and healthy recoveries



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The Company's overall AUM stands comfortable at Rs 1956 Crores as on 30 September 2022 when compared to Rs 2,003 Crores as on 31 March 2022 and Rs 1994 Crores as on 31 March 2021. Total recoveries remain healthy with company recovering Rs 121 Crores in FY22 when compared to Rs 166 Crores in FY21. Total recoveries in H1FY23 stood at Rs 74 Crores which has further improved to Rs 140 crores by the end of 31 December 2022.

Comfortable capitalization and gearing

The capitalisation of the company is strong with total CRAR of 49.98% and Tangible Net worth of INR 176.40 Crore as on 31 March 2022 against regulatory requirement of 15%. The overall gearing has remained low at 0.50x as on 31 March 2022.

Key Rating Weaknesses

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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Analytical Approach: Standalone

Applicable Criteria:

Financial Institutions/NBFCs | Infomerics Ratings

Criteria of assigning rating outlook

Liquidity - Adequate

The company liquidity remains adequate with comfortable capitalisation of 49.98%, low gearing of 0.50x and TNW of Rs 176.40 Crores as on 31 March 2022. The cash and cash equivalents of the company stood at INR 13.85 Crore (including untilised bank lines) as on December 31, 2022.

About the Company

Alchemist Asset Reconstruction Company Ltd. is registered with the Reserve Bank of India as a Securitization and Reconstruction Company under the provisions of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 having its registered office at A-270, 1st & 2nd Floor, Defence Colony, New Delhi 110024. AARC is engaged in activities of acquiring Financial Assets from Banks, Financial Institutions and NBFC for their resolution, recovery of dues and acquiring units as a going concern. The Company acquires Non-Performing Assets (NPAs) from the Banks / Financial Institutions at mutually agreed prices with the objective is to maximise the returns through innovative resolutions strategies.

Financials (Standalone)*:

Rs in Crores

For the year ended As on	31-03-2021	31-03-2022
	Audited	Audited
Total Income	36.70	39.70



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PAT	13.60	1.90
Tangible Net Worth	174.60	176.40
Total Debt	118.80	90.30
Total Investments	350.86	312.45
AUM	1994.42	2003.32
ROTA (%)	4.76	0.70
Total CAR (%)	48.29	49.98
Overall Gearing (Times)	0.70	0.50
Interest Coverage	3.90	1.30

^{*}Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Fa	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
	cilities	Туре	Amount outstandi ng (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019- 20
1.	Proposed NCDs	Long Term	100.00	IVR A-/ Stable	-	-	-
2.	Proposed Long term loans	Long Term	75.00	IVR A-/ Stable	-	-	-
3.	Secured Over draft	Long Term	25.00	IVR A2+	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange



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Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities:

Name of Facility/Instrume nt	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed NCDs	-	-	-	100.00	IVR A-/Stable
Proposed Long Term loans	-	-	-	75.00	IVR A-/Stable
Secured Over Draft	-	-	-	25.00	IVR A2+

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



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Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-AlchemistARC-feb23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

Issuer	Alchemist Asset Reconstruction Company Limited		
Debenture Trustee	Vistara ITCL (India) Limited		
Issue	Private Placement of 12.5% to be listed, rated, secured, taxable, redeemable non-convertible debentures of face value of Rs. 10,00,000 (Rupees Ten Lakh) each.		
Type of Instrument	12.5%, to be listed, rated, secured, taxable, redeemable non-convertible debentures		
Mode of Issue	On Private Placement basis		
Issue Size	Rs. 100,00,00,000 (Rupees Hundred Crore) which includes basic issue of Rs 50,00,00,000 Crores and option to retain over subscription of Rs 50,00,00,000 Crores.		
Option to retain oversubscription (Amount)	The issue has a option to retain an additional Rs. 50,00,00,000 (Rupees Fifty Crore)		
Objects of the Issue	The proceeds of the issue will be utilised for investment into SRs or Acquisition of Financial Assets. Pending full utilization of proceeds from issue, the temporary surplus will be invested in the permissible investment for Asset reconstruction companies.		
Coupon Rate	12.5% p.a. Payable quarterly		
Coupon/ Interest Payment Frequency	Payable quarterly		
Tenor	5 years from date of allotment		
Security Cover	1.35 times the amount of fund raised in the form of Security Receipts		
Covenants	For the financial and other covenants provided by the Issuer, Promoter and other Obligors, please refer to the Transaction Documents.		

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.