Press Release

CFM Asset Reconstruction Private Limited (CFM ARC)

March 29, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Non-Convertible Debentures (NCDs)	34.00	IVR A-/ Stable (IVR Single A Minus with Stable outlook)	-	Assigned	Simple
Long Term fund-based facilities – Term Loans	7.39 (Decreased from Rs.34.90)	IVR A-/ Stable (IVR Single A Minus with Stable outlook)	IVR A-/ Stable (IVR Single A Minus with Stable outlook)	Reaffirmed	Simple
Long term fund-based facilities – Proposed	117.61 (Increased from Rs. 90.10 crore)	IVR A-/ Stable (IVR Single A Minus with Stable outlook)	IVR A-/ Stable (IVR Single A Minus with Stable outlook)	Reaffirmed	Simple
Short Term fund-based facilities – Secured Over Draft	50.00	IVR A2+ (IVR A Two Plus)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**209.00 (Rupees Two Hundred Nine Crore Only)**				

Note: Mr. Malay Mukherjee who is a member of the Rating Review Committee at Infomerics Valuation and Ratings Private Limited is also an external advisor to CFM Asset Reconstruction Private Limited's management on acquisition, resolution proposals and overall business operations. However, Mr. Mukherjee did not participate in the entire rating exercise, including the rating decision.

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assignment/reaffirmation to the various credit facilities of CFM Asset Reconstruction Private Limited (CFM ARC) continues to derive comfort from the experienced management team, consistent growth in AUM, improving revenues and healthy profitability and comfortable capitalisation levels. However, ratings are constrained by any significant crystallization of the liabilities which is contingent in nature; arising out of the Income Tax demand assessment and/ or any adverse orders from regulator, poor track record of resolution of stressed assets in India, intense competition in the asset reconstruction sector and the vulnerability of earning profile due to volatile nature of cash flows and risk associated with any adverse changes in the distressed assets policy framework.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in Assets Under Management and substantial improvement in recoveries resulting in improved revenues and profitability.

Downward Factors

- Any significant crystallization of the liabilities arising out of the Income Tax demand assessment which is contingent in nature and/or any adverse orders from the regulator which could have an impact on the business.
- 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

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management team

CFMARC has a three-member executive committee (EC) comprising of industry leaders and veterans to take a decision on Stressed assets acquisition and resolution proposals. The board of director comprises of Chairman and majority Independent Directors. The company has robust governance framework with various committees to enable integrity and transparency namely, Committee for Acquisition & Resolution of Financial Assets (CARFA), Independent Advisory Committee (IAC), Risk Management Committee, CSR Committee, Audit Committee etc.

Consistent growth in Asset under management (AUM)

The Company's overall Asset under management (AUM) has been consistently increasing year on year basis with Asset under management (AUM) increasing to Rs. 4,251.99 crore in FY23 from Rs. 3,020.62 crore in FY21 on the back of improved acquisition of assets. Going forward, the company projects its growth momentum to continue supported by substantial growth in acquisitions. Asset under management (AUM) has further grown to Rs. 5,358.78 crore in 9MFY24.

Improving revenues & healthy profitability

The total revenue of the company witnessed ~16% growth in FY23 driven by an increase in management fees, recovery incentive, profit on sale of financial assets/ Security Receipts (SRs). The revenue increased from Rs. 177.19 crore in FY22 to Rs. 204.69 crores in FY23. The Profit after tax (PAT) margin of the company remained healthy at ~15% in FY23 however marginally declined from 17.07% in FY22. Total revenues and PAT of the company stood at Rs 147.81 crore and Rs 23.64 crore for 9MFY24.

Comfortable capitalization levels

On the back of need-based capital infusion from the promoters, company has been able to maintain strong capitalisation levels. The overall Capital adequacy ratio (CAR) stood comfortable at 36.56% as on December 31, 2023, as against regulatory requirement of 15%. The overall gearing has improved from 1.47x as at FY22 to 0.50x in FY23 as the company repaid significant portion of secured and unsecured term loans.

Key Rating Weaknesses

Any significant crystallization of the liabilities which are contingent in nature arising out of the Income Tax demand assessment and/ or any adverse orders from regulator

The assessment proceedings consequent to the search u/s 132 of the Income-tax Act, 1961 were completed in the months of December-2022 & June-2023 & accordingly assessment orders along with demand notices were received for Rs 5.54 Crores. The company has filed appeals before the Commissioner of Income-tax (Appeals), Mumbai. This remains to be a key rating sensitivity factor and Infomerics shall continue to closely monitor the same.

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 and the vulnerability of earning profile due to volatile nature of cash flows

There are ~28 registered Asset Reconstruction Companies (ARCs) in India, which manage more than Rs. 1 lakh Crore of Asset under management (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 Asset Reconstruction Companies (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. The recoveries might not always be as estimated, as the resolution of stressed assets is subject to many factors. Due to the nature of its business the recoveries from acquired assets is difficult to predict.

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, Asset Reconstruction Companies (ARCs) might keep on confronting difficulties given the inherent nature of the business and the asset reconstruction industry

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions/Non-Banking Finance companies]

[Criteria of assigning Rating Outlook]

[Policy on Withdrawal of Ratings]

[Complexity level of rated instruments/Facilities]

[Policy on Default Recognition]

Liquidity: Adequate

CFM ARC has strong networth of Rs. 228.38 Cr. As on 31 March 2023. The average OD utilization stood at ~46% for the 12-months period ended Feb-2024. As of 31 December 2023, the company had a cash and bank balance of Rs. 5.71 crore, fixed deposit of Rs 19.75 crore and unutilised OD balance of Rs 0.77 crore. The overall CAR stood comfortable at 36.56% as on December 31, 2023, as against regulatory requirement of 15%.

About CFM ARC

CFM Asset Reconstruction Private Limited ("CFM ARC" or the "Company") was incorporated on 30th July 2015 and 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.

Financials (Standalone)*:

Rs in Crores

For the year ended/As on*	31-03-2022	31-03-2023

	(Audited)	(Audited)
Total Income	177.19	204.69
PAT	30.24	31.56
Total debt	288.45	114.05
Tangible Networth	196.82	228.38
Assets Under Management	5004.63	4251.99
PAT margin (%)	17.07	15.42
Overall gearing (Times)	1.47	0.50
Total CRAR (%)	19.64	33.30

***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/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 – (10 January 2024)	& Rating(s) assigned in 2022-23 –	Date(s) & Rating(s) assigned in 2021-22 (10 January 2022)	Date(s) & Rating(s) assigned in 2020-21
1.	Non-Convertible Debentures	Long Term	34.00	IVR A-/Stable	-	-	-	-
2.	Bank Loan Facilities – Term Loans	Long Term	7.39	IVR A-/Stable	IVR A-/Stable	IVR A-/Rating watch with Negative implications (Dated 8 March 2023) IVR A-/Stable (Dated 11 October 2022) IVR A-/Credit Watch with developing implications (Dated 28 June 2022)	IVR A-/Credit watch with developing implications	IVR BBB+/Credit watch with developing implications (Dated 28 December 2021) IVR A-/Positive (dated 7 October 2021)

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 – (10 January 2024)	& Rating(s) assigned in 2022-23 –	Date(s) & Rating(s) assigned in 2021-22 (10 January 2022)	Date(s) & Rating(s) assigned in 2020-21
3.	Bank Loan Facilities – Proposed	Long Term	117.61	IVR A-/Stable	IVR A-/Stable	IVR A-/Rating watch with Negative implications (Dated 8 March 2023) IVR A-/Stable (Dated 11 October 2022) IVR A-/Credit Watch with developing implications (Dated 28 June 2022)	IVR A-/Credit watch with developing implications	IVR BBB+/Credit watch with developing implications (Dated 28 December 2021) IVR A-/Positive (dated 7 October 2021)
4.	Bank Loan Facilities – Secured Overdraft	Short Term	50.00	IVR A2+	IVR A2+	IVR A2+/Rating watch with negative implications (dated 8 March 2023) IVR A2+ (Dated 11 October 2022) IVR A2+/Credit watch with developing implications (Dated 28 June 2022)	IVR A2+/Credit watch with developing implications	IVR A2 (dated 28 Dec 2021) IVR A2+ (dated 7 October 2021)

Name and Contact Details of the Rating Director:

Name: Mr. Amey Joshi

Tel: (022) 62396023

Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to the best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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 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	ISIN	Date of Issuance	Coupon Rate	Tenor/ Maturity	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook

Non-Convertible Debentures (NCDs)	INE865X07017	26 Dec 2023	10.00%	26 Dec 2026	34.00	IVR A-/ Stable
Long Term Fund Based Facility – Term Loan	-	-	-	June 2025	7.39	IVR A-/ Stable
Long Term Fund Based Facility – Proposed Loans	-	-	-	-	117.61	IVR A-/ Stable
Short Term Fund Based Facility – Secured Overdraft	-	-	-	Revolving	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/len-CFMAsset-mar24.pdf

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

Transaction Structure

NCD issue of Rs.34.00 crore

Issuer	CFM Asset Reconstruction Private Limited
Investor	Multi-Act Trade and Investments Pvt Ltd, The Indian Card Clothing Co. Ltd and Multi Act Realty Enterprises Pvt Ltd
ISIN	INE865X07017
Issue	Rated, unlisted secured NCDs through private placement
Nature of Instrument	Secured
Issue Size	INR 34.00 Crore
Purpose	Acquisition of pool of secured (wholesale/retail) financial assets from NBFCs/FIs/Bank's/HFCs under 15:85 Cash:SR structure
Tenor	3 years with bullet repayment on redemption date The tenor can be extended at the request of ARC and approval of the Investor by a further period of 2 years.
Security Summary	• Pledge of SR's within 30 days from the date of issuance of NCDs to 2X • Hypothecation of all cashflows/assets accruing to ARC in relation to above SRs – Agreement to be executed prior to issuance of NCDs
Coupon %	Fixed return of 10% p.a. payable annually
Call/put option	No prepayment before 12 months from the date of first drawdown. No prepayment penalty is applicable after 12 months

Events of default	• Nonpayment of fixed coupon on due dates • Non-redemption of entire NCDs at the end of 5 years
Financial Covenants	None
Issue date	26 Dec 2023
Maturity date	26 Dec 2026

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.