



Press Release

CFM Asset Reconstruction Private Limited [CFM ARC]

June 28, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u> (Simple/Complex /Highly complex)
<u>Long Term Fund based facilities</u> Term Loan	51.27	IVR A-/ Credit Watch with Developing Implications [IVR A Minus under Credit watch with Developing Implications]	Rating reaffirmed	Simple
<u>Long Term Fund based facilities</u> Proposed Fund based limit	73.73	IVR A-/ Credit Watch with Developing Implications [IVR A Minus under Credit watch with Developing Implications]	Rating reaffirmed	Simple
<u>Short Term Fund based facilities</u> Secured Overdraft	50.00	IVR A2+/ Credit watch with Developing Implications [IVR A Two Plus under Credit watch with Developing Implications]	Rating reaffirmed	Simple
Total	175.00			

Details of Facilities are in Annexure 1

Post the Income Tax Department's search and seizure operations on four Asset Reconstruction Companies (ARCs) which included CFM Asset Reconstruction Pvt. Limited; Infomerics Ratings had assessed for the likely impact of the same on the company's business operations and reviewed financial performance for 6MFY22 and accordingly revised the ratings and put it under Credit Watch with Developing Implications. Infomerics has now reviewed the financial performance of the company for FY22 and 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



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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 FY22, 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.

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.



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Growth in AUM

The Company's overall AUM has been consistently increasing year after year from INR 721.99 Crore as at FY18 to FY21 to Rs. 5,004.63 Cr. In FY22 (Prov.). 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 FY22 (Prov.) driven by an increase in management fees, recovery incentive, profit on sale of financial assets/ SRs. The revenue increased from Rs. 103 Crore in FY21 to Rs. 177.80 Cr. indicating a growth of 73%. The PAT margin of the company remained healthy at ~17% in FY22.

Strong capitalization and comfortable gearing

The promoters and associates infused funds in FY22 Prov. in the form of Equity of Rs. 2.56 Crore. The overall CAR stood comfortable at 19.80% during FY22 as against regulatory requirement of 15%. Further, the liquidity position remains to be comfortable as of March 31, 2022. The overall gearing has remained comfortable at 1.47x as at FY22 Prov.

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 FY22

There has been significant growth in AUM in FY22 since majority of the assets were acquired during the year. 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.



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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 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 Approach

Applicable Criteria:

[Rating methodology for Non-Banking Finance Companies](#)

[Financial ratios and Interpretation \(Financial Sector\)](#)



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Liquidity –Adequate

The Net Worth of CFM ARC increased during FY22 to INR 196.16 Cr. The proposed credit lines will also provide liquidity & cushion for further expansion. The cash and cash equivalents stood at Rs. 49.46 Cr. (including Fixed Deposits of Rs. 21.11 Cr.) as on March 31, 2022.

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.

Financials (Standalone):

For the year ended/ As on*	INR in Crore	
	31-03-2021 (Audited)	31-03-2022 (Provisional)
Total Income	102.80	177.80
PAT	18.55	29.58
Total Debt	197.65	288.45
Tangible Net Worth	161.58	196.16
PAT margin (%)	18.04	16.64
Overall Gearing Ratio (x)	1.22	1.47
Total CAR (%)	20.95	19.80

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None



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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: 2022-23)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Rating assigned in 2021-22 (Dated: Jan. 10, 2022)	Rating assigned in 2021-22 (Dated Dec. 28, 2021)	Rating assigned in 2021-22 (Dated Oct. 07, 2021)
Long Term Fund based facilities	Term Loan	51.27	IVR A-/ Credit Watch with Developing Implications	IVR A-/ Credit Watch with Developing Implications	IVR BBB+/ Credit Watch with Negative Implication	IVR A-/ Positive Outlook
Long Term Fund based facilities	Proposed	73.73	IVR A-/ Credit Watch with Developing Implications	IVR A-/ Credit Watch with Developing Implications	IVR BBB+/ Credit Watch with Negative Implication	IVR A-/ Positive Outlook
Short Term Fund based facilities	Secured Overdraft	50.00	IVR A2+/ Credit watch with Developing Implications	IVR A2+/ Credit watch with Developing Implications	IVR A2	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 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.



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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 Term Loan III	--	--	Dec-2022 Dec-2023 Jun-2025	22.69 8.58 20.00	IVR A-/ Credit Watch with Developing Implications
2	<u>Long Term Fund based facilities</u> Proposed fund-based limit	--	--	--	73.73	IVR A-/ Credit Watch with Developing Implications
3	<u>Short Term Fund based facilities</u> Secured Overdraft	--	--	--	50.00	IVR A2+/ Credit watch with Developing Implications

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

Annexure 3: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Len-CFM-Asset-june22.pdf>

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

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