



Press Release

CFM Asset Reconstruction Private Limited [CFM ARC]

March 08, 2023

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	25.01	IVR A-/ Rating Watch with Negative Implications [IVR A Minus placed on Rating Watch with Negative Implications]	Rating moved on Rating Watch	Simple
<u>Short Term Fund based facilities</u> Secured Overdraft	50.00	IVR A2+/ Rating Watch with Negative Implications [IVR A Two Plus placed on Rating Watch with Negative Implications]	Rating moved on Rating Watch	Simple
<u>Long Term Fund based facilities</u> Proposed Fund based limit	99.99	IVR A-/ Rating Watch with Negative Implications [IVR A Minus placed on Rating Watch with Negative Implications]	Rating moved on Rating Watch	Simple
Total	175.00			

Details of Facilities are in Annexure 1

Rating Action:

In light of the media news dated March 01, 2023, wherein the Reserve Bank of India has sent show cause notices to a few asset reconstruction companies (ARCs), seeking answers on why their licences should not be cancelled. This is a follow-up action wherein the regulator has conducted special audit following the Income Tax raids conducted in 2021.

Infomerics has been given to understand from the company that the clarifications/ information on certain observations in the audit report has been submitted to RBI. Further, RBI has provided approval for appointment of Ms. Surekha Marandi (formed ED in RBI) as an independent director in the company.



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Considering the given developments, Infomerics shall closely monitor the situation and for any actions from the regulator which can have an adverse impact on the company's operational & business performance. Accordingly, Infomerics has moved the account from Stable to Rating Watch with Negative Implications.

Detailed Rationale

The rating assigned to the bank facilities of CFM Asset Reconstruction Private Limited (CFM ARC) continues to derive 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 Any adverse findings by Income Tax Department, 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 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 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/ RBI 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 consistently increasing year on year basis with AUM at Rs. 3,020.62 Crore as at FY21 to Rs. 5,004.63 Cr. In FY22. In Q1FY23, the AUM reduced to Rs. 4,172.49 Cr. mainly due to redemption of few major Security receipts. 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 driven by an increase in management fees, recovery incentive, profit on sale of financial assets/ SRs. The revenue increased from Rs. 102.80 Crore in FY21 to Rs. 177.2 Cr. in FY22 indicating a growth of 72%. 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 in the form of Equity of Rs. 2.56 Crore. The overall CAR stood comfortable at 27.07% as on August 31, 2022 as against regulatory requirement of 15%. Further, the liquidity position remains to be comfortable as of August 31, 2022. The overall gearing has remained comfortable at 1.47x as at FY22.



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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. As on date, the matter has been taken over by Income Tax Assessment unit and that the assessment is still pending. Further, there are no inquiries from Income Tax Department and no demand has been crystalized.

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.

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 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. 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.



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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.

Analytical Approach: Standalone Approach

Applicable Criteria:

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

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

[Criteria of Rating Outlook | Infomerics Ratings](#)

Liquidity –Adequate

The Net Worth of CFM ARC increased during FY22 to Rs. 196.8 Cr. from that of Rs. 161.58 Cr. in FY21. The average OD utilization stood at 75% for the 12-months period ended August-2022. As of July 31, 2022, the company had a cash and bank balance of Rs.24.03 Cr. The CAR stood adequate at 27.07% as on August 31, 2022 against regulatory requirement of 15%.

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 (Standalone):

INR in Crore

For the year ended/ As on*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Income	102.80	177.2
PAT	18.55	30.2
Total Debt	178.65	288.5
Tangible Net Worth	161.58	196.8
Assets Under Management	3020.62	5004.63
PAT margin (%)	18.04	17.1
Overall Gearing Ratio (x)	1.11	1.5
Total CAR (%)	21.13	19.66

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

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 2022-23 (Dated: Oct 11, 2022)	Rating assigned in 2022-23 (Dated: Jan. 10, 2022 & Jun 28, 2022)	Rating assigned in 2021-22 (Dated Dec. 28, 2021)
Long Term Fund based facilities	Term Loan	25.01	IVR A-/ Rating Watch with Negative Implications	IVR A-/ Stable	IVR A-/ Credit Watch with Developing Implications	IVR BBB+/ Credit Watch with Negative Implication
Long Term Fund based facilities	Proposed	99.99	IVR A-/ Rating Watch with Negative Implications	IVR A-/ Stable	IVR A-/ Credit Watch with Developing Implications	IVR BBB+/ Credit Watch with Negative Implication
Short Term Fund based facilities	Secured Overdraft	50.00	IVR A2+/ Rating Watch with Negative Implications	IVR A2+	IVR A2+/ Credit watch with Developing Implications	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

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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	Term Loan	--	--	Dec-23	11.30	IVR A-/ Rating Watch with Negative Implications
2	Term Loan	--	--	Jun-25	13.71	
3	Proposed fund-based limit	--	--	--	99.99	IVR A-/ Rating Watch with Negative Implications
4	Secured Overdraft	--	--	--	50.00	IVR A2+/ Rating Watch with Negative Implications

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lenders-CFMARC.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