



Press Release

Prudent ARC Limited

September 25, 2023

Ratings

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Rating | Rating Action | Complexity Indicator |
|-------------------------------------|---------------------------|--|---|--------------------------------|-----------------------------|
| LongTerm Bank facilities - Proposed | 100.00 | IVR A-/(Stable) (Single A minus Stable) | IVR BB+/ Negative /INC (Double B Plus Negative/ Issuer Not Cooperating) | Upgraded & Removed from INC | Simple |
| Total | 100.00 | (Rupees Hundred Crores Only) | | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The Rating upgraded to the bank facilities of Prudent ARC Limited has taken into consideration experienced & qualified management team, Covered under SARFAESI Act, with a focused approach towards NPA resolution followed by competitive pricing of the acquired portfolio with a moderate haircut of the acquired portfolio and healthy mix of cash/security receipts deals, and overall growth in operational performance. However, the ratings are constrained by poor track record of resolution of stressed assets in India, intense competition in the Asset Reconstruction sector along with risk associated with any adverse changes in the distressed assets policy framework and vulnerability of earning profile of ARCs due to volatile nature cash flows.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in AUM, along with significant recoveries and redemptions, followed by an increase in the scale of operations coupled with stable revenue stream from 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.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter & management team

PAL has an experienced management team headed by Mr Pradeep Goel and supported by Mr. Shamik Roy, CEO who has a rich experience in the banking profession handling large value advances, resolution of stressed assets, corporate debt structuring, evaluation of stressed assets, negotiation and recovery, etc. The company is also well supported by Mr. Amarjit Kochar (Sr. Executive Vice President – Legal) who is a Retired GM of Punjab & Sind Bank having 39 years of banking experience in Legal and recovery matters and Shri. Ahluwalia (Sr Executive Vice President -Resolution) who retired from Punjab National Bank as General Manager with all round experience in banking of more than 35 years. Mr. G.L. Manchanda, (Senior Executive Vice President - Acquisition and Resolutions) having more than 40 years of banking experience with Union Bank of India of which 16 years of experience in recovery of NPAs. Further, the management team is guided by a highly experienced board of directors.

Covered under SARFAESI Act, with a focused approach towards NPA resolution

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 introduced ARCs as intermediaries to buy NPAs from bank on payment of a part of acquisition cost in cash with the remaining cost being deferred. Present NPA laden banking scenario and high focus to solve the NPA problems indicates enormous opportunities for ARCs.

Growing Scale of operations and churning of acquired assets

The company was registered with the Reserve Bank of India as a Securitization and Asset Reconstruction company in August, 2016. Thus, the company has seen major growth in its assets acquired during past 2 years. The company started its operation by acquiring two assets at INR9 Crore (O/s value of loan at the time of acquisition: INR22.89 Crore) from Andhra Bank. Subsequently, the company augmented its acquisition to ~INR171.69 Crore (O/s value



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of loan at the time of acquisition: INR 395.78 Crore) as of 31.3.2017 and up to INR 3,327.44 Crore as of 31.3.2023.

Strong capitalisation and comfortable gearing

The promoters and associates infused funds in the form of Compulsory and Optionally Convertible Preference of about INR 10.16 Crore during FY19, thereby taking tangible net worth of the company to INR 139.54 Crore as on March 31, 2023 (March 31, 2022: INR 139.36 Crore). As per the prudential norms, PAL is required to maintain capital adequacy of 15% however, the Capital adequacy ratio (CAR) as on March 31, 2023 was 27.93% giving sufficient headroom for growth. The company continues to have comfortable gearing of 2.05 times as on March 31, 2023 (2.66 times as on March 31, 2022).

Key Rating Weaknesses

Concentrated portfolio

The company has ~40% of its AUM in Assets related to steel sector which indicates minimal portfolio concentration risk. However, the promoter's exposure to industry also gives distinct advantage in recovery. Furthermore, these segments have seen recovery through IBC process or otherwise during last couple of years. Also, PAL has resolved cases in the said sectors.

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



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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 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. However, PAL has acquired financial assets with healthy mix of cash/security receipts which mitigate the risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for NBFC Companies](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity –Adequate

To summarise, there is a sizable opportunity in the stressed-assets space for investors, with IBC being a game changer. The IBC ecosystem is developing at a fast pace, but adherence to the timelines remains a challenge. ARCs will need to focus more on resolutions and attracting co-investors.

About the Company

Prudent ARC Limited (PAL) was incorporated in September, 2011 and is Delhi based company promoted by Mr. Pradeep Goel. The company subsequently received registration to



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commence Asset Reconstruction business vide RBI Registration certificate dated August 3, 2016.

Financials (Standalone):

| (Rs. Crore) | | |
|---------------------------|------------|------------|
| For the year ended* | 31-03-2022 | 31-03-2023 |
| | Audited | Audited |
| Total Operating Income | 35.73 | 40.51 |
| Net Interest Income | (9.85) | (19.19) |
| PAT | 12.88 | 0.21 |
| Total Debt | 370.09 | 286.60 |
| Tangible Net worth | 139.36 | 139.54 |
| PAT Margin (%) | 36.06% | 0.52% |
| Overall Gearing Ratio (x) | 2.66x | 2.05x |
| Total CAR (%) | 25.67% | 27.93% |

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

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 | Rating Dated : July 19, 2023 | Date(s) & Rating(s) assigned in 2022-23 Date : July 28, 2022 | Date(s) & Rating(s) assigned in 2021-22 Date : April 29, 2021 | Date(s) & Rating(s) assigned in 2020-21 |
| 1. | Proposed | Long | 100.00 | IVR A-(Stable) | IVR BB+(INC)/Negative | IVR BBB/(INC) | IVR A-(Stable) | - |

Name and Contact Details of the Rating Analyst:

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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 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.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|------------------|------------------|------------------|---------------|------------------------------|--------------------------|
|------------------|------------------|------------------|---------------|------------------------------|--------------------------|



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| | | | | | |
|---|---|---|---|--------|-------------------|
| Long Term Bank Facilities – Proposed | - | - | - | 100.00 | IVR A-/ Stable |
|---|---|---|---|--------|-------------------|

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-ARC-sep23.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 [Complexity Level of Rated Instruments/Facilities](#).