



Press Release

Reliance Asset Reconstruction Company Limited (RARCL)

February 28, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Proposed Non-Convertible Debentures	50.00	IVR A/ RWDI (IVR A; Rating under watch with developing implications)	Assigned	Simple
Fund Based – Short Term Bank Facilities – Secured Overdraft	60.00	IVR A1/ RWDI (IVR A One; Rating under watch with developing implications)	Assigned	Simple
Proposed Fund Based – Short Term Bank Facilities – Secured Overdraft	15.00	IVR A1/ RWDI (IVR A One; Rating under watch with developing implications)	Assigned	Simple
Total	125.00 (Rupees One Hundred Twenty-Five Crores only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of ratings to the bank loan facilities/non-convertible debentures of Reliance Asset Reconstruction Company Limited (RARCL) has taken into consideration, established track record of operations and professional 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.

The rating has been placed under “Rating under watch with developing implications” on the back of ongoing stake sale of the company’s promoter entity Reliance Capital Limited (RCL)



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and the expected change in ownership and its impact on the overall financial and credit profile of the company. The stake sale of RCL is under IBC and they expect the same to be closed by end of March 2023. They have received final bids from “Torrent & Hinduja”. The auction was scheduled in the month of Dec-22, where Torrent Investment was the highest bidder, however Hinduja increased their bidding at the time of submission of resolution plan which Torrent objected and went to NCLT, in the meanwhile COC proposed second round of auction, Torrent won the matter in NCLT and it directed COC not to conduct second round of bidding, COC has appealed in NCLAT and the matter will be heard shortly.

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.
- Positive impact on the overall performance of the company due to the change in ownership through proposed stake sale.

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 impact on the overall performance of the company due to changes in ownership through proposed stake sale.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations and professional management.

RARC has been in asset reconstruction business for more than a decade and has consistently grown over the years. The company is led by an experienced senior management team consisting of seasoned industry professionals with vast experience in the asset management business. The day to day operations of the company are overseen by



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Mr. Mehul Gandhi, Executive Director and CEO and is well supported by a qualified and experienced management team. The Board of Directors of Reliance Asset Reconstruction Company Limited currently comprises one Executive Director & CEO, three Non-executive Non-Independent Directors and two Independent Directors.

Stable AUM levels and healthy recoveries

The Company's overall AUM stands comfortable at Rs 2113 Crores as on 31 December 2022 when compared to Rs 2,230 Crores as on 31 March 2022 and Rs 2213 Crores as on 31 March 2021. Total recoveries remain healthy with company recovering Rs 324 Crores in FY22 when compared to Rs 222 Crores in FY21. Total recoveries in 9MFY23 stood at Rs 275 Crores.

Comfortable capitalization and gearing

The capitalisation of the company is strong with total CRAR of 60.20% and Tangible Net worth of INR 248.25 Crore as on 31 March 2022 against regulatory requirement of 15%. The overall gearing has remained low at 0.42x 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.



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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

Applicable Criteria:

[Financial Institutions/NBFCs | Infomerics Ratings](#)

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

The company liquidity remains adequate with adequate capitalisation of 60.20%, low gearing of 0.42x with TNW of Rs 248.25 Crores. The cash and cash equivalents stood at INR 11.04 Crore in the from utilised bank lines as on December 31, 2022.

About the Company

Reliance Asset Reconstruction Company Limited (RARC) is a Securitisation and Reconstruction company, registered with the Reserve Bank of India (RBI), under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. RARC was set-up in 2006. Their principal business is to acquire non-performing financial assets from banks / financial institutions, manage them through restructuring, and resolve them in a time-bound manner through active interventions. As on March 31, 2022, they manage a portfolio of Rs. 2230 crores and 3,73,166 customers across retail and SME segment.



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Financials (Standalone)*:

Rs in Crores

For the year ended As on	31-03-2021	31-03-2022
	Audited	Audited
Total Income	60.47	62.01
PAT	21.71	22.13
Tangible Net Worth	229.39	248.45
Total Debt	122.78	103.73
AUM	2213.22	2229.79
ROTA (%)	5.68	5.74
Total CAR (%)	54.81%	60.20%
Overall Gearing (Times)	0.54	0.42
Interest Coverage	2.86	3.43

*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 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (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	50.00	IVR A/ RWDI	-	-	-
2.	Secured Overdraft	Short Term	60.00	IVR A1/ RWDI	-	-	-
3.	Proposed Secured Overdraft	Short Term	15.00	IVR A1/ RWDI	-	-	-

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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:

Name of Facility/Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed NCDs	-	-	-	50.00	IVR A/RWDI
Secured Over Draft	-	-	-	60.00	IVR A1/RWDI
Proposed Secured Over Draft	-	-	-	15.00	IVR A1/RWDI



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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-RelianceAsset-feb23.pdf>

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

Draft term sheet for proposed NCDs

DESCRIPTION	PARTICULARS
Issuer	Reliance Asset Reconstruction Company Limited
Instrument	Redeemable, Listed Non – Convertible Debentures (“NCD” or “Debenture”)
Objects of the issue	To acquire non-performing assets from Banks and Financial Institutions through cash mode or by issue of Security Receipts, herein after referred as “ Specific Investment/General Investment ”.
Security requirements	Debentures shall be secured by “Security Receipts” as per the terms and conditions stipulated
Issue Size	Upto INR 50,00,00,000/- (Indian Rupees Fifty Crore only) to be raised in multiple tranches
Tenure	Upto 30 months, with call option
Redemption	With call option <ol style="list-style-type: none">1. Upto 25% of the amount issued within 6 months from the date of issue.2. Upto 50% of the amount issued withing 12 months from the date of issue.3. Upto 75% of the amount issued withing 18 months from the date of issue.4. Upto 100% of the amount issued withing 24 months from the date of issue. Along with fixed coupon. Or Bullet on completion of 30 months from the date of allotment
Coupon Type	Fixed Coupon plus variable
Coupon Rate (fixed)	14.00% p.a.
Variable Coupon	A variable coupon will be calculated and paid after full redemption of Principal and will depend on future returns to be generated by the company from specific investment. Future returns will be calculated using XIRR formulae from the date of specific



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	investment and ending on 5 years from the date of specific investment based on cashflows and associated costs.
Fixed Coupon Frequency	Interest Payable on redemption on the outstanding balance of the NCD, along with call option or on bullet repayment.
Escrow Account	Company will open escrow account and funds received from the specific investment will be credited to escrow account, including Management fees, collection charges, recovery incentive SR redemption excluding reimbursement of expenses and interest thereon. Escrow account will be used to repay principal, fixed coupon and variable coupon. Accounts will be operated jointly by the company and escrow service provider appointed by the company, tripartite agreement for appointment of service provider will be signed between company, service provider and investor for each tranche separately. Any shortfall in the payment of fixed coupon will be compensated by the company from cashflows generated by the company its other investment.
Security Cover	The Security Cover shall be at least 1.20 Times, initially company will pledge its existing investment and once specific investment is done company will pledge security receipts of specific investments and can de-pledge the existing investments given initially subject to security cover of 1.20 times.

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.