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UV Asset Reconstruction Company Limited (UVARCL)

June 12, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Fund based Long Term Bank facility - Working capital term loans	100.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Proposed loans – Fund based - Long Term	25.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	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 of UV Asset Reconstruction Company Limited (UVARCL) has taken into consideration the experienced promoters and management team, moderate AUM levels and healthy recoveries, comfortable capitalisation and gearing and Improved financial profile. However, the ratings are constrained by the volatile earnings profile, 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.

Infomerics has also taken into the consideration The ongoing dispute with RBI, where RBI had issued a show cause notice to UVARC in November'2020 in response to its bankruptcy resolution proposal for telecom firm Aircel, wherein the ARC had proposed to invest in equity of Aircel.

The Honourable Delhi High Court had stayed RBI's show cause notice which was issued to UVARC in November'2020 in response to its bankruptcy resolution proposal for telecom firm Aircel, wherein the ARC had proposed to invest in equity of Aircel. The writ petition is due for hearing by the Honourable Court. As per UVARC, even if the ruling is not in the company's favour, they do not expect imposition of any penalty in this regard, since their writ petition is



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aimed at seeking express clarity in matters related to law. Moreover, the company has not violated any norms as regulatory approval from RBI was laid down as a precedent condition at the time of submission of resolution plan and no direct equity investment has been undertaken by UVARC in Aircel entities till date. The writ petition is before the Honourable high court and the next date of hearing is in July 2023.

Infomerics has also taken into consideration the Income Tax Department's search and seizure operations on UVARCL conducted in October 2022 and the proceedings are ongoing. However, there are no restrictions imposed on the operations of the company and the company is going ahead with their business as usual.

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.

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.
- Adverse outcome from the ongoing Writ petition and IT proceedings

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management team

UVARCL has a team of highly qualified and experienced professionals to run various business operations. After the unfortunate demise of Ms. Shilpi Sharma, Ex - Founder and Promoter of the company, on July 17, 2021, her shareholding of 32.3% has been transferred to her husband Mr. Pramod Sharma post RBI approval. Around 50% of the shareholding is



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with various corporate bodies. The Board of the company comprises of experienced professionals with banking and legal background. The Board is chaired by Mr. P Prakash Prabhakar Naolekar, a retired Judge of the Supreme Court of India and has also served as Chief Justice of Guwahati High Court. Mr. Gurpreet Kaur (Company Secretary) and Mr. Ritesh Aggarwal (CFO) are the Executive cum Whole time Directors of the Company. Rest of the Directors on the Board are Independent Directors. As on March 31, 2023, public sector banks & insurance companies held 7.50% stake in the company. These include Central Bank of India, Bank of Maharashtra, Union Bank of India, Bank of India, United Bank of India, Allahabad Bank, United India Insurance Company Limited and National Insurance Company Limited.

Moderate AUM levels and healthy recoveries

The Company's overall AUM stands comfortable at Rs 1357.09 Crores as on 31 December 2022, when compared to Rs 1007.87 Crores as on 31 March 2022. Total recoveries remain healthy with company recovering Rs 118.93 Crores in FY22 when compared to Rs 25.51 Crores in FY21. Total recoveries in 9MFY23 stood at Rs 75.67 Crores.

Comfortable capitalization and gearing

The capitalisation of the company is strong with total CRAR of 44.90% and Tangible Net worth of INR 142.77 Crore as on 31 March 2022 against minimum regulatory requirement of 15% CRAR. The overall gearing remains moderate at 1.15x as on 31 March 2022.

Improved Financial profile.

The total revenue of the company has witnessed significant improvement in FY22 driven by an increase in recovery incentive, profit on sale of financial assets/ SRs. The revenue increased from Rs. 10.05 Crore in FY21 to Rs. 52.62 Crores in FY22 as the realisations from financial assets which were stuck during the covid phase were recovered in FY22 indicating a growth of 424%. The PAT margin of the company remained healthy at 6.80% in FY22.

Key Rating Weaknesses



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Volatile earnings profile

Revenues and profitability of UVARCL are susceptible to timely recoveries/resolution of financial assets. Any delay in the same will impact the earnings profile of the company which is reflected in the volatility in the earnings profile of the company. For FY22, the company reported total income of Rs 52.62 Crores when compared to Rs.10.05 crore in FY21 and Rs.31.14 crore in FY20. The volatility in income levels was mainly on account of decline in Profit on resolution of financial assets and non-interest income. The delay in resolution/recovery will also impact the profitability of the company as they have to provide provisions against outstanding SRs. Due to which the company reported a loss of Rs.18.49 crore in FY21 as compared to PAT of Rs.2.66 crore in FY20. On the back of better recoveries, the company has reported PAT of Rs 3.56 Crores for FY22.

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.



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Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Financial Institutions/NBFCs](#)

[Criteria for assigning rating outlook](#)

Liquidity –Adequate

The company is adequately capitalized with a CAR (%) of 43.94% as on 31 December 2022, and Networth of Rs 121.03 Crores. Also, The company has cash and bank balances of Rs 18.14 Crores as on 31 December 2022.

About the Company

UV Asset Reconstruction Company Limited (UVARCL) was incorporated as Public Limited Company on August 23, 2007 under the provisions of the Companies Act, 1956 having Registered Office at 704, 7th Floor, Deepali Building, 92, Nehru Place – 110 019. UVARCL has been registered with the Reserve Bank of India as an Asset Reconstruction Company pursuant to Section 3 of the SARFAESI vide Certificate No. 014/2011 dated June 17, 2011. It is engaged in acquisition and resolution of Non-Performing Assets (NPAs) acquired from Banks/Financial Institutions. The Company has a diversified portfolio across sectors and geographies in India. The Company's focus over past few years has shifted from recovery to resolution of Stressed Accounts.

UVARCL is sponsored by entrepreneurs and professionals along with equity participation from 6 Banks namely- Union bank of India, Bank of India, Central Bank of India, Allahabad Bank (now merged with Indian Bank) , United Bank of India (now merged with Punjab National Bank) and Bank of Maharashtra and 2 Insurance Companies namely United India Insurance Company Limited and National Insurance Company Limited.



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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	10.04	52.62
PAT	(18.49)	3.56
Tangible Networth	119.57	142.77
Total Debt	201.90	163.86
Total AUM	1011.10	1007.87
ROTA (%)	(5.84)	1.13
Total CRAR (%)	35.60	44.90
Overall Gearing (Times)	1.69	1.15
Interest coverage (Times)	(0.13)	1.25

***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 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	WCTL	Long Term	100.00	IVR BBB-/Stable	-	-	-
2.	Proposed Loans	Long Term	25.00	IVR BBB-/Stable	-	-	-

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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 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/Instrument:

Name of Facility/ Instrument	Date of Issuance	Coupon Rate/ IRR (%)	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
WCTL	-	-	-	100.00	IVR BBB- /Stable
Proposed Loans	-	-	-	25.00	IVR BBB- /Stable
Total				125.00	



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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-UV-Asset-jun23.pdf>

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

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.

