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Reliance Asset Reconstruction Company Limited (RARC)

February 18, 2025

Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Proposed Non-Convertible Debentures	100.00	IVR A/Stable (IVR A with stable outlook)	IVR A/Stable (IVR A with stable outlook)	Rating reaffirmed	Simple
Proposed Non-Convertible Debentures	100.00	IVR A/Stable (IVR A with stable outlook)	IVR A/Stable (IVR A with stable outlook)	Rating reaffirmed	Simple
Fund Based Short Term Bank Facilities – Secured Overdraft	45.00	IVR A1 (IVR A One)	IVR A1 (IVR A One)	Rating reaffirmed	Simple
Proposed Fund Based Short Term Bank Facilities – Secured Overdraft	130.00	IVR A1 (IVR A One)	IVR A1 (IVR A One)	Rating reaffirmed	Simple
Total	375.00 (Rupees Three hundred Seventy – five Crores Only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its rating assigned to the Bank facilities and proposed Non-convertible Debentures (NCDs) of RARC as it continues to derive strength from sustained growth in AUM levels with healthy recoveries, strong capitalisation coupled with low gearing and established track record of operations and professional management. However, the ratings are constrained by pending implementation of resolution plan, poor track record of resolution of stressed assets in India, intense competition in the asset reconstruction sector and risks associated with any adverse changes in the distressed assets policy framework.

“Stable” outlook on account of expected continuation in growth momentum in asset acquisition and recoveries on the back of strong capitalisations and established track record of the company.



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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 impacting the earnings profile of the company or more than expected rise in gearing and/or deterioration in capital adequacy.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Sustained growth in AUM levels with healthy recoveries

RARC's overall AUM increased to Rs 2,329.14 in FY24 (period refers from 01st April 2023 to 31st March 2024) when compared to Rs 2208.13 crore as on 31 March 2023. Fresh acquisitions for FY24 stood at Rs 351.00 crore when compared to Rs 249.46 crore in FY23. Recoveries remained healthy with total recoveries of Rs 323.29 crore in FY24 when compared to total recoveries of Rs 373.90 crore in FY23. Total recoveries and AUM stood at Rs.239.00 crore and Rs 2140.17 crore respectively in 9MFY25. Given the restrictions on fresh asset acquisitions till the closure of resolution plan of Reliance Capital Ltd.'s stake sale, the AUM has moderated.

Strong capitalization coupled with low gearing

RARCs total CRAR stood comfortable at 75.02% in 9MFY25 giving more cushion for fresh acquisitions. CRAR levels have improved on the back of retention of profits, capital infusion by the promoters and moderation in AUM levels. RARCs Tangible Net worth (TNW) stood at Rs 283.85 crore as on 31 March 2024 with overall gearing of 0.23x. (Rs 268.54 crore and 0.30x respectively in FY23).



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Established track record of operations and professional management

RARCL 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 Mr. Mehul Gandhi, Executive Director and CEO and is well supported by a qualified and experienced management team.

Key Rating Weaknesses

Pending implementation of resolution plan

In November 2021, the RBI superseded the Reliance Capital board on governance issues and payment defaults by the Anil Dhirubhai Ambani Group company. IndusInd International Holdings Limited (IIHL) (Hinduja Group) emerged as the successful resolution applicant in April 2023 for acquiring the troubled financial services firm under the Corporate Insolvency Resolution Process (CIRP) of the Insolvency and Bankruptcy Code (IBC). IIHL won the bid at Rs 9,650 crore in April 2023. The central bank had appointed Nageswara Rao Y as the administrator, who invited bids in February 2022 to take over the company.

IndusInd International Holdings Limited (IIHL) (Hinduja Group) is set to complete the acquisition of the Reliance Capital Ltd by February 26, 2025, the National Company Law Tribunal (NCLT) has approved the implementation of resolution plan as IIHL has confirmed submission of all definitive documents and achieving financial closure towards implementation of the resolution plan of Reliance Capital in the hearing dated February 10, 2025.

IIHL's lenders have reassured that they are ready to draw down the remaining funds of Rs 4,300 crore required to complete the payment of total Rs 9,861 crore of resolution plan value to creditors of Reliance Capital Ltd (RCL). IIHL has already completed more than 58 per cent of the resolution plan value (of Rs 5,750 crore) by deposit in various escrow accounts, two of which are in CoC-designated accounts as per the order of the NCLT holding Rs 2,750 crore.



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IIHL had already secured approvals from the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority of India (IRDAI), and stock and commodity exchanges earlier this year. IIHL has confirmed that all the issues, including concerns from lenders Barclays and 360 One, have been resolved, paving the way for finalising the acquisition pending de-listing approvals.

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.

Risks 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:

[Rating Methodology for Financial Institutions/Non-Banking Finance companies](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning Rating Outlook.](#)

[Complexity level of rated instruments/Facilities](#)



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Financial Ratios & Interpretation (Financial Sector)

Liquidity – Adequate

Given the scale of operations, RARCs liquidity remains adequate with total CRAR of 75.02% and tangible Networth of Rs 296.61 crores as on 31 December 2024. The average overdraft utilization stood high at ~96.00% for the period January-December 2024.

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. RARCs 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.

Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Income	72.83	67.66
PAT	23.11	18.62
Tangible Net worth	268.54	283.85
AUM	2,208.13	2,329.14
Ratios		
ROTA (%)	6.08	4.95
Interest Coverage (times)	3.58	3.77
Total CRAR (%)	66.35	66.41

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information:

Rating History for last three years:



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Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					27 Feb 2024	28 Feb 2023	-
1.	Proposed NCDs	Long Term	100.00	IVR A/Stable	IVR A/Stable	IVR A/RWDI	-
2.	Proposed NCDs	Long Term	100.00	IVR A/Stable	IVR A/Stable	-	-
3.	Secured Overdraft	Short Term	45.00	IVR A1	IVR A1	IVR A1/RWDI	-
4.	Proposed Secured Overdraft	Short Term	130.00	IVR A1	IVR A1	IVR A1/RWDI	-

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About Infomerics:

Infomerics Valuation and Rating 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: Instrument/Facility Details

Name of Facility/Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Listing status	Rating Assigned/ Outlook
Proposed NCDs	-	--	-	-	100.00	Proposed to be listed	IVR A/Stable
Proposed NCDs	-	--	-	-	100.00	Proposed to be Unlisted	IVR A/Stable
Secured Overdraft	-	-	-	Revolving	45.00	-	IVR A1
Proposed - Secured Overdraft	-	-	-	Revolving	130.00	-	IVR A1

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-reliancearc-feb25.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:

Indicative term sheet for unlisted of NCD Rs. 100.00 crore

Description	Particulars
Issuer	Reliance Asset Reconstruction Company Limited ("RARC" or "Company")
Instrument	secured, redeemable, unlisted, non-convertible debentures
Nature of issue	Private placement
Coupon	14% p.a. payable monthly
Tenure	36 months from the Issue Date
Make Whole (lock in)	Minimum multiple of 1.30x of the invested amount
Principal Repayment Schedule	4% per month from 12 th month onward



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Collateral Cover	Minimum cover of 1x
Security/Guarantee	Pledge of identified pool of Security Receipts (SRs) held by RARC issued by various trusts, subject to SRs issued by one trust not being more than 10% of overall security package. Charge on all fixed assets and current assets of Issuer (incl. financial assets)
DSRA	1 month

Indicative term sheet for Listed NCD of Rs.100.00 crore

DESCRIPTION	PARTICULARS
Issuer	Reliance Asset Reconstruction Company Limited
Instrument	Secured, Redeemable, listed, Non – Convertible Debentures (“NCD” or “Debenture”)
Nature of Issue	On private placement basis
Objects of the issue	The NCDs are issued to raise resources to meet the ongoing funding requirements for the Company’s business activities, for general corporate purposes and refinancing of the existing debt obligations of the Company.
Security requirements	Debentures shall be secured by pledge of security receipts as identified by the company from time to time
Issue Size	Rs. 100 crore/- (Rupees Hundred Crore only)
Face value	INR. 1,00,000/- (Indian Rupees One Lakh only)
Issue price	Debentures will be issued at par
Tenure	36 months, with call option
Redemption	With call option, along with coupon. Or Bullet on completion of 36 months from the date of allotment
Coupon Type	Fixed Coupon
Coupon	12% p.a
Fixed Coupon Frequency	Interest Payable on redemption on the outstanding balance of the NCD, along with call option or on bullet repayment.
Utilization of issue proceeds	The Issuer shall utilize the proceeds of the Issue solely for meeting the Objects of the Issue.
Mandatory Prepayment	The Company shall mandatorily redeem the NCDs, if it becomes unlawful for the any debenture holder to hold the NCDs or perform its obligations under the transaction documents, pursuant to a change in law, within a period of 45 days from the date of notification by the debenture holder or shorter time prescribed under applicable laws.
Affirmative Covenants	(a) To utilise the proceeds of this issue in accordance with applicable laws and regulations. (b) To promptly inform notice of winding up / other legal proceedings (c) To promptly inform Material adverse effect (d) To provide the investor with access to data/information/meetings with the



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	management team for periodical portfolio monitoring (e) To comply with corporate governance, fair practices code prescribed by RBI And as set out in greater detail in the Debenture Trust Deed
Events of Default	(a) Non-payment of any of the dues under this term sheet, within the due date. (b) Default or trigger of event of default on any other indebtedness (cross default) (c) Misrepresentation or misleading information in any of the Transaction Documents (d) Insolvency, winding up, liquidation (e) Repudiation of Transactions Documents (f) Cessation of business. (g) Material adverse change: In the opinion of the Investor, (i) a material impairment of the sufficiency, validity, value, ranking or enforceability of the security, (ii) a material adverse change in the business, operations or condition (financial or otherwise) of Company (iii) a material adverse effect on the legality or validity of the Transaction Documents (including ability of the Investor / trustee to enforce its remedies); (iv) material impairment of the ability of the Company to perform with its obligations under the Transaction Documents. And as set out in greater detail in the Debenture Trust Deed
Reporting Covenants	Customary Information and Reporting Rights will be available to the investor. The Company shall inform the Investor, upon occurrence of events such as events of default, breach of warranties or covenants set out in the Transaction Documents, any legal proceeding / notice instituted against / received by the Company, default in any indebtedness / obligations to any creditors, any Material Adverse Change and such other material events as set out in the Transaction Documents, within 15 days of the occurrence of such event
Fixed Coupon Frequency	Interest Payable on redemption on the outstanding balance of the NCD, along with call option or on bullet repayment at the end of every financial year.
Call option and exercise date	With call option 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 Along with fixed coupon. Or Bullet on completion of 36 months from the date of allotment
Day Count Basis	Actual
Minimum Investment	INR 1,00,000/- (Indian Rupees One Lakhs Only)
Security Cover	The Security Cover shall be at least 1.20 Times, the company will pledge the specific investment
Utilization of issue proceeds	The Issuer shall utilize the proceeds of the Issue solely for meeting the Objects of the Issue
Debenture Redemption Reserve	The issuer will create a DRR in accordance with the provisions of CA, 2013 and/or any guidelines issued by SEBI/RBI as applicable and if during the currency of the tenure of the debenture any guidelines are formulated/revised by any Governmental Authority having authority under the law in respect of creation of DRR, the issuer shall abide by the guidelines as maybe required by the debenture trustee / debenture holders



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Annexure 4: List of companies considered for consolidated/Combined analysis: 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.

