



Press Release

Revised Press Release

Reliance Asset Reconstruction Company Limited (RARCL)

February 27, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Proposed Non - Convertible Debentures (NCDs)	50.00	IVR A/Stable (IVR Single A with Stable Outlook)	Rating reaffirmed; Outlook assigned and removed from Rating watch with developing implications	Simple
Proposed Non - Convertible Debentures (NCDs)	150.00	IVR A/Stable (IVR Single A with Stable Outlook)	Assigned	Simple
Fund Based - Short Term Bank Facilities- Secured Overdraft	45.00 (Decreased from Rs.60.00 crore)	IVR A1 (IVR A One)	Rating reaffirmed and removed from Rating watch with developing implications	Simple
Proposed Fund Based - Short Term Bank Facilities – Secured Overdraft	130.00 (Increased from Rs.15.00 crore)	IVR A1 (IVR A One)	Rating reaffirmed and removed from Rating watch with developing implications/Assigned	Simple
Total	375.00 (Rupees Three Hundred and Seventy Five Crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The resolution of Rating watch with developing implications and assignment of 'Stable Outlook' reflects Infomerics' belief that credit profile of Reliance Asset Reconstruction Company Limited (RARCL) shall be agnostic of which suitor of the two (Hinduja group & Torrent group) wins the bid. This stems from the fact that the parentage of either of the bidders will have a similar salubrious effect on the credit profile of RARCL.

The rating continues to reflect stable business operation in FY23 (audited) and H1FY24 (provisional), stable AUM levels, healthy recoveries, comfortable capitalisation and overall gearing levels along with established track record of



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operations and professional management, However, the rating strengths 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.

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 changes in resolution process in terms of change in identified suitors.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Stable AUM levels and healthy recoveries

The Company's overall AUM stands stable at Rs 2157.94 crore as on 30 September 2023 when compared to Rs 2208.13 crore as on 31 March 2023 and Rs 2229.80 crore as on 31 March 2022. Total recoveries remain healthy with company recoveries at 16.94 % in FY23 as against AUM of Rs.2208.13 crore when compared to 14.52% recoveries in FY22 as against AUM of Rs.2229.80 crore. Total recoveries in H1FY24 stood at Rs.161.39 crore as against AUM of Rs.2157.94 crore in H1FY24.



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Comfortable capitalization and overall gearing

The total CRAR stood comfortable and stood at 69.86% in H1FY24. Moreover, the CRAR stood at 66.35% in FY23 as against 60.20% in FY22. Notably the company has maintained CRAR of 15% as per regulatory requirement. The company has tangible net worth (TNW) of Rs 268.54 crore as on March 31, 2023 against total debt of Rs 81.30 crore resulting in comfortable overall gearing of 0.30x as on March 31, 2023. (Overall gearing :0.42x as on March 31, 2022).

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 resolution at NCLT

The resolution of Reliance Capital Limited (RCL) under IBC is in final stages. Hinduja Group resolution plan was approved by COC of RCL received by 99.96% votes in the second round of bidding in June 2023 which was challenged by Torrent Group in Supreme Court. However, the Supreme Court refused to stay the NCLT proceedings. Torrent Group plea challenging the Hinduja Group resolution plan for RCL is due for hearing in Supreme Court. The rating also takes into account further developments on RCL administrator has received the NOC from RBI in favour of Hinduja Group. Further, RBI has approved Hinduja Group directors on board of RCL.

The management is confident that the in-principle approval from RBI for change in shareholding (from RCL to Hinduja group) is likely to be received by the end to March 2024. As on 27th Feb 2024 the NCLT has also given approval for the resolution plan



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of Hinduja Group. Any delay/change in resolution process remains to be a key rating sensitivity factor and Infomerics shall continue to closely monitor the same.

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.

Analytical Approach: Standalone

Applicable Criteria:

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

[Criteria of assigning rating outlook](#)

[Criteria – Complexity Level of Rated Instruments/Facilities](#)



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[Policy on recognition of default](#)

Liquidity – Adequate

The Net Worth of the company increased over the years and increased to Rs. 268.54 crore. in FY23 from Rs. 248.25 crore in FY22. The average overdraft utilization stood at 91.27% for the period December 2022-November 2023. As of September 30, 2023, the company had a cash and bank balance of Rs. 0.08 crore and unutilised bank limit stood Rs.1.73 crore. The overall Capital adequacy ratio (CAR%) stood comfortable at 66.35% as on March 31st, 2023, as against regulatory requirement of 15%.

About the Company

Reliance Asset Reconstruction Company Limited (RARCL) 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. RARCL was set-up in 2008.

RCL holds 49% stake in RARCL. RARCL's 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, 2023, they manage a portfolio of Rs. 2208 crore and 3,42,313 customers across retail and SME segment.

Financials (Standalone)*:

Rs in crore

For the year ended As on	31-03-2022	31-03-2023
	Audited	Audited
Total Income	62.01	72.83
PAT	22.13	23.11
Tangible Net Worth	248.25	268.54
Total Debt	103.73	81.30
Total Investments	388.55	376.45
AUM	2229.80	2208.13
ROTA (%)	5.74	6.08
Total CAR (%)	60.20	66.35



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Overall Gearing (Times)	0.42	0.30
Interest Coverage(Times)	3.43	3.58

**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 (February 28 rd , 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Proposed Non - Convertible Debentures (NCDs)	Long Term	50.00	IVR A/Stable	IVR A/ RWDI*	-	-
2	Proposed Non - Convertible Debentures (NCDs)	Long Term	150.00	IVR A/Stable	-	-	-
3	Fund Based - Short Term Bank Facilities-Secured Overdraft	Short Term	45.00	IVR A1	IVR A1/ RWDI*	-	-
4.	Proposed Fund Based - Short Term Bank Facilities-Secured Overdraft	Short Term	130.00	IVR A1	IVR A1/ RWDI*	-	-

***RWDI: Rating watch with developing implications.**

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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.

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	-	-	-	200.00	IVR A/Stable
Secured Overdraft	-	-	-	45.00	IVR A1
Proposed Secured Overdraft	-	-	-	130.00	IVR A1

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-RelianceARC-feb24.pdf>

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

Proposed to be 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	
Issue Schedule	Issue Opening Date	Yet to be decided
	Issue Closing Date	
	Deemed Date of Allotment	
Form of issue	Debentures will be issued in dematerialized form	
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	
Redemption Premium	Each Debenture shall be redeemed at par.	



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Other Key Terms	The Transaction Documents shall contain customary provisions for such transactions including affirmative and negative covenants, representations and warranties to be repeated throughout the tenure and other terms as may be applicable. The Transaction Documents shall contain necessary clauses to comply with the Companies (Share Capital and Debentures) Rules, 2014 and SEBI (Debenture Trustee) Regulations, 1993.
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.
Covenants	Financial covenants:
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.
Security Cover	The Security Cover shall be at least 1x
Covenants	Non - Financial covenants:
Affirmative Covenants	<p>(a) To utilise the proceeds of this issue in accordance with applicable laws and regulations.</p> <p>(b) To promptly inform notice of winding up / other legal proceedings</p> <p>(c) To promptly inform Material adverse effect</p> <p>(d) To provide the investor with access to data/information/meetings with the management team for periodical portfolio monitoring</p> <p>(e) To comply with corporate governance, fair practices code prescribed by RBI</p> <p>And as set out in greater detail in the Debenture Trust Deed</p>
Events of Default	<p>(a) Non-payment of any of the dues under this term sheet, within the due date.</p> <p>(b) Default or trigger of event of default on any other indebtedness (cross default)</p> <p>(C) Misrepresentation or misleading information in any of the Transaction Documents</p> <p>(d) Insolvency, winding up, liquidation</p> <p>(e) Repudiation of Transactions Documents</p> <p>(f) Cessation of business.</p> <p>(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.</p>



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Draft Term sheet of proposed unlisted NCD of 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
Proposed transaction	An investment of up to Rs. 100 Crores ("Investment Amount")
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
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

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.

Link of Press release dated February 27, 2024: [Click here](#)