

Rating Rationale

Reliance Asset Reconstruction Company Limited

15 April 2019

Brickwork Ratings downgrades rating of the Principal Protected Market Linked Debenture and long term bank loan facilities and placed them on credit watch with developing implications. Brickwork Ratings withdraws rating of proposed short term bank loan facility.

Particulars

Instrument	Previous Amount (Rs in Crs)	Present Amount (Rs in Crs)	Outstanding as on 31 Mar 19 (Rs in Crs)	Coupon	Previous Rating* (June 2018)	Rating*
PPMLD	Up to Rs. 100 Crs	Up to Rs. 100 Crs	19.00	MLD	BWR PP MLD AA- (Pronounced as BWR Principal Protected Market Linked Debenture Double A Minus) (Outlook: Stable)	BWR PP MLD A (Pronounced as BWR Principal Protected Market Linked Debenture A) (Credit watch with developing implications) (Downgraded)
Total	100.00	100.00	INR One Hundred Crores Only/-			

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Details of Bank Loan Facilities

Facility	Previous Amount (in Cr)	Present Amount (in Cr)	Tenor	Previous Rating (June, 2018)	Rating*
Overdraft	75.00	75.00	Long Term	BWR AA- (Pronounced as BWR Double A Minus) Outlook: Stable	BWR A (Pronounced as BWR A) (Credit watch with developing implications) (Downgraded)
Proposed Borrowing	25.00	25.00			
Proposed Borrowing	50.00	-	Short Term	BWR A1+ (Pronounced as BWR A One Plus)	Rating withdrawn of BWR A1+ (Pronounced as BWR A One)
Total	150.00	100.00	INR One Hundred Crores Only/-		

Rating Downgrade

Rating downgrade factors moderation in financial flexibility of sponsor Reliance Capital Limited (49% holder) due to large investments and loans given to non financial group entities. This has limited the capability of parent to provide any capital support to RARC.

Rating placed on Credit watch with developing implications on account of Credit watch placed on the rating of sponsor and also as to monitor any funding from RARCL to group companies going forward.

Short Term Rating Withdrawn

BWR has withdrawn short term rating of BWR A1+ assigned to its proposed bank loan facilities amounting to Rs 50 Crs, since the company has intimated that they have not availed this facility till date and have no plan to avail the same in the near term.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Audited financials upto FY18, and Provisional key financial figures for FY19, publicly available information and information/clarification provided by the Company's management.

The ratings continues to factor in experienced management team and managerial & operational support from "Reliance Capital Limited". The rating also factors improvement in financial performance of RARCL and a move towards a more granular portfolio through acquisition of retail and SME portfolio and its track record of speedy recoveries.

The rating is however constrained by weak financial flexibility of Sponsor Company "Reliance Capital Limited", inherent challenges associated with asset reconstruction business with respect to acquiring assets and resolving the same in a timely manner.

Going forward, the Company's ability to scale up its operations and efficient resolution of distressed assets will be key rating sensitivities.

Key Rating Drivers

Strengths:

- **Experience Management :** The company is led by an experienced senior management team consisting of seasoned industry professionals with vast experience in asset management business. BWR also taken into account comfort derived from the domain knowledge of the senior management team and the expected managerial support from RCL.
- **Improvement in Financial Performance:** On standalone basis overall financial performance has shown improvement supported by profit increased to Rs 16 Crs (Provisional) in FY19 against Rs.9 Crs during FY18. RoE improved from 6.13% in FY18 to 9.76% in FY19. Company has acquired assets of Rs 428 Crs during FY19 against Rs 169 Crs during FY18. Also company has resolved assets of Rs. 271 Crs during FY19 against Rs 206 Crs during FY18. AUM increased to Rs 2114 Crs as on 31 Mar 2019 from Rs 1864 Crs as on 31 Mar 2018.
- **Move towards a more granular portfolio through acquisition of retail and SME portfolio:** The Company is moving towards Retail and SME segments which are more granular portfolios, considering the quick resolvability of the exposures. Retail and SME segment contributed 39% and 22% respectively as on 31 March 2019. Retail and SME assets have historically demonstrated a quicker pay back with a resolution period of three to five years.

Weaknesses

- Weakening financial flexibility at parent and group level amidst large quantum of short term borrowing due for repayment in the near term. That will limit further capital support to RARC from parent.
- The challenges faced by this industry in continuously acquiring assets at reasonable price given the disparity between the price expectation of the selling financial institutions and asset reconstruction companies.

About the Company

Reliance Asset Reconstruction Company Limited (RARC) is a public limited company domiciled in India and incorporated under the provisions of the Companies Act, 1956. RARC was set up in 2006. The principal sponsor/shareholder of RARC is the Reliance Group (through Reliance Capital Limited). The other sponsors / shareholders are Corporation Bank, Indian Bank, GIC of India, Dacecroft and Blue Ridge.

RARCL is in the business of asset reconstruction and securitization in all forms and to acquire, hold, manage, assign NPA loan assets (of Banks or Financial Institutions) with or without underlying securities, and recover from the Borrower/Underlying securities or dispose off the loan assets to other bodies corporate, co-operative societies, firm or individuals.

Company Financial Performance

Particulars (Amt in Rs. Crs)	2017 (Audited)	2018 (Audited)	2019 (Provisional)
Total Operating Income	36.99	42.65	58.00
PAT	9.02	9.04	16.00
Tangible Net worth	144.02	149.62	162.00
Asset Under Management	1829	1864	2114
Acquisition	494	169	428

Rating History for the last three years: (including withdrawn/suspended ratings)

Sn	Instrument / Facility	Current Rating (Year 2018)			Rating History		
		Type	Rating Amount	Ratings	2018	2017	2016
1	PP-MLD	Long Term	100	BWR PP MLD A (Pronounced as BWR Principal Protected Market Linked Debenture A) (Credit watch with developing implications) (Downgraded)	BWR PP MLD AA- (Pronounced as BWR Principal Protected Market Linked Debenture Double A Minus) (Outlook: Stable) (Reaffirmed)	BWR PP MLD AA- (Pronounced as BWR Principal Protected Market Linked Debenture Double A Minus) (Outlook: Stable) (Assigned)	-
2	Overdraft	Long Term	75	BWR A (Pronounced as BWR A) (Credit watch with developing implications) (Downgraded)	BWR AA- (Pronounced as BWR Double A Minus) Outlook: Stable (Reaffirmed)	BWR AA- (Pronounced as BWR Double A Minus) Outlook: Stable (Reaffirmed))	BWR AA- (Pronounced as BWR Double A Minus) Outlook: Stable (Assigned)
3	Proposed Borrowings		25			BWR AA- (Pronounced as BWR Double A Minus) Outlook: Stable (Assigned)	-
4	Proposed Borrowings	Short Term	50	Rating withdrawn of BWR A1+ (Pronounced as BWR A One)	BWR A1+ (Pronounced as BWR A One Plus) (Reaffirmed)	BWR A1+ (Pronounced as BWR A One Plus) (Reaffirmed)	BWR A1+ (Pronounced as BWR A One Plus) (Assigned)
	Total		250	INR Two Hundred Crores			

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Market/Equity Linked Debenture](#)
- [Approach to Financial Ratios](#)
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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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