



Asset Care & Reconstruction Enterprises Limited

Instrument	Amount	Rating Action
Rs 50 crore Bank overdraft facility	Rs 50 crore	[ICRA]BBB- (Stable) (Assigned)

ICRA has assigned [ICRA]BBB- (pronounced ICRA triple B minus) rating to Rs. 50 crore bank lines of Asset Care & Reconstruction Enterprises Limited (ACRE)[†]. The outlook on the long-term rating is stable.

The rating takes into consideration support from its strong institutional shareholders, experienced management team, moderate capitalisation levels and improvement in operating profitability of ACRE. IFCI Limited holds 37.91% of shares of ACRE and has demonstrated support to the company by proving equity as well as debt. ICRA has taken note of management's ability to predict the 'recoverability from the assets acquired' as well as to assess timelines required, which has resulted in adequate profits from the transactions resolved so far. However, the track record remains limited, which along with relatively small net worth and high credit concentration risk of ACRE constrain the rating. The rating also takes note of the challenges which Asset Reconstruction Companies (ARCs) face to continuously acquire assets at reasonable price and to resolve them within reasonable timeframe to protect profitability. However, the sizeable amount of delinquent assets in the financial system along with ARCs focussed approach towards NPA resolution likely to provide moderate growth opportunities to ARCs.

ACRE, incorporated in July 2007, increased its scale of operations over last two years; it acquired assets worth more than Rs.180 crore during 2009-10, 2010-11 and 9M 2011-12 and resolved assets worth around Rs 80 crore during the same period. The company has recruited employees at both senior and lower-mid management level to scale up its operations. ACRE's assets under management increased from Rs.36 crore as on March 2009 to Rs.125 crore as on December 2011. The increase in asset base is funded mainly through borrowings raised from sponsor institutions (IFCI and PNB) and internal capital generation. The credit concentration risk on ACRE's portfolio is high given lenient credit concentration norms; top five exposure of ACRE together accounted for more than 70% of its total credit portfolio and around 2.5 times of its net worth as on December 2011.

ACRE had a net worth of Rs. 36 crore as on Dec-2011 and regulatory capital adequacy 21.26% as on March 31, 2011. The capitalisation level of company is moderate for current scale of operations though it will need additional capital to scale up its business volumes and to meet regulatory capital adequacy requirements of 15% (for entities that have net owned funds of less than Rs 100 crore). Further, ACRE is primarily acquiring assets on its balance sheet while other ARCs also acquire through Security Receipt (SR) structure thus ACRE's gearing remain higher than other ARCs.

With the increase in business volumes and successful resolution of some of the assets, operating profitability of the company improved during FY 2011 and 9M 2011-12. Going forward, company's profitability is likely to be driven by its ability to acquire financial assets at reasonable price and timely and profitable resolution of these assets.

[†] "For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications"



About the Company

Asset Care & Reconstruction Enterprises Limited (ACRE) was incorporated in June 2002 under the name of Asset Care Enterprises Limited; the company was renamed Asset Care & Reconstruction Enterprises Limited (ACRE) in November 2010. ACRE is registered with the RBI as a Securitization and Reconstruction Company and is engaged in the business of acquiring non-performing assets from banks and financial institutions. The company's registered office is located at New Delhi. ACRE is promoted by IFCI Limited, Punjab National Bank (PNB) and other banks and financial institutions. As on March 31, 2011 IFCI and PNB, respectively held 37.91% and 30% of the share capital of ACRE. ACRE reported profit after tax of Rs. 6.08 crore during 2010-11 on total asset base of Rs.167 crore as on March-2011 against profit after tax of Rs.1.21 crore during 2009-10 on total asset base of Rs.78 crore as on March-2010. ACRE reported profit after tax of Rs 6.57 crore during 9M 2011-12.

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