March 20, 2025

Asset Reconstruction Company (India) Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Non-convertible debenture (NCD) programme	300.0	300.0	[ICRA]AA- (Stable); reaffirmed
Bank lines long-term fund based – Others	750.0	1,200.0	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Total	**1,050.0**	**1,500.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating continues to consider Asset Reconstruction Company (I) Limited's (ARCIL) established position in the asset reconstruction industry with an adequate track record of recovery from assets, its healthy capitalisation, and the backing of experienced sponsors. ARCIL is one of the largest asset reconstruction companies (ARCs) in the domestic market with gross assets under management (AUM) of Rs. 16,926 crore as on December 31, 2024. Its sponsors include Avenue India Resurgence Pte. Ltd. (Avenue; 70% stake), followed by State Bank of India (SBI; 20%)[1]. ARCIL benefits from the expertise of its largest sponsor in the global distressed assets space and enjoys operational support from Avenue Capital Group.

ARCIL's capitalisation profile remains healthy with a net worth of Rs. 2,663 crore and a gearing of 0.1 times as on December 31, 2024. Further, ICRA does not expect the leverage to cross the negative trigger threshold in the foreseeable future. The rating also considers the company's comfortable coverage metrics with average debt/average recoveries of less than 1.0 times in the last three years. ARCIL has a track record of recoveries with the cumulative recoveries to cumulative acquisitions ratio remaining in the range of 62-65% between FY2021 and FY2023. It improved to 72% in FY2024, given the moderation in fresh acquisitions. Despite the uptick in acquisitions in 9M FY2025, the company has maintained this ratio at 72%. Going forward, amid the ambitious growth plan of scaling up the AUM to ~Rs, 25,000 crore by March 2030, the company's ability to maintain the pace of resolutions and recoveries will remain a key driver of its cash flow and debt servicing ability.

The rating is, however, constrained by the volatile nature of the cash flows in the ARC industry. Further, the valuation of an ARC's assets and its management fee are linked to the recovery ratings of the security receipts (SRs), which can result in volatile profitability. Thus, any adverse movement in the recovery rating profile of the portfolio can have a bearing on the company's financial profile. Going forward, ARCIL's ability to generate healthy cash flows through timely resolutions will remain important from a credit perspective. Also, the asset reconstruction industry's prospects have remained susceptible to regulatory changes. In this backdrop, the company's ability to judiciously acquire new assets while maintaining a comfortable leverage will remain imperative for its credit profile.

The Stable outlook reflects ICRA's expectation that ARCIL will continue maintaining its market position in the asset reconstruction space. The AUM is expected to scale up in the near and medium term, given the higher share of small and medium-sized enterprise (SME) and retail assets wherein the churn is faster, which will support the company's financial profile. The outlook also reflects ICRA's expectation that ARCIL will benefit from its largest sponsor, Avenue, and will maintain a prudent capitalisation profile with a gearing of less than 0.75 times in the medium term.

[1] *SBI's infrastructure bonds and fixed deposit facility are rated [ICRA]AAA (Stable) by ICRA*

Key rating drivers and their description

Credit strengths

Established track record in ARC industry; backing of experienced sponsors – ARCIL was India's first ARC to commence the business of the resolution of stressed assets upon acquisitions from Indian banks and financial institutions. It continues to be one of the largest players in the domestic ARC industry with an operational track record of almost two decades. As of December 2024, it had issued cumulative SRs of Rs. 37,763 crore and the SRs outstanding (gross AUM) were Rs. 16,926 crore. ARCIL's own share in the AUM was Rs. 3,235 crore while the net asset value (NAV; reduced for provisions) stood at Rs. 2,656 crore as on December 31, 2024. Although the current AUM has a larger share of distressed real estate accounts (30-35%), it is noted that the company's broader asset acquisition policy remains sector agnostic. ICRA also notes that the acquisitions in this industry are opportunistic in nature.

Until FY2023, ARCIL mainly used to operate in the corporate and SME segment (~90% of AUM as on March 31, 2023), which is riskier than the retail segment on account of the comparatively larger ticket size, higher complexity involved in the transactions, and the protracted resolution process. However, the improving health of the corporate loan books of banks and the cyclically low gross non-performing assets (GNPAs) in the banking sector impacted the supply of stressed corporate assets in the subsequent period. Further, given the strong growth in retail credit in the last 2-3 years and the early signs of distress in some pockets of retail credit, most ARCs reported a shift towards retail assets in recent quarters. ARCIL issued SRs aggregating Rs. 3,235 crore in 9M FY2025, with 29% representing retail assets, compared to Rs. 2,068 crore issued in FY2024 of which 26%[2] was retail (Rs. 4,289 crore issued in FY2023; SME and retail: 14%). As on December 31, 2024, the AUM comprised corporate (66%), SME (19%) and retail loans (15%). Going forward, ARCIL plans to remain focused on acquiring SME and retail assets.

Avenue, a part of Avenue Capital Group, is a global distressed debt management fund with an established presence in the United States (US), Europe and Asia. ARCIL enjoys operational support from the sponsor, though the partnership between the two entities remains non-exclusive. It also benefits from managerial supervision through its adequately diversified board, comprising three Sponsor Directors and four Independent Directors.

Adequate track record of recovery from assets – ARCIL has a track record of recoveries with healthy trends in the cumulative recoveries to cumulative acquisitions ratio over many years. It is noted that the NAV of the higher rated SRs (with expected recovery of more than 75%) formed 59% of the AUM[3] as on December 31, 2024 while ARCIL's own share in higher rated SRs was 63%. ICRA notes that a sizeable portion of the assets, which would have become due for write-off after eight years, was provided for in the preceding years. Thus, the near-term impact of the incremental downward revision in the fair valuation of these assets, if any, on its profitability, is likely to be modest (~Rs. 40 crore in FY2025 and FY2026, in NAV terms). Going forward, amid the ambitious growth plan of scaling up the AUM to ~Rs, 25,000 crore by March 2030, the company's ability to maintain the pace of resolutions and recoveries will remain a key driver of its cash flow and debt servicing ability.

Healthy capitalisation and recoveries provide good coverage for debt servicing – ARCIL's capitalisation remains healthy with a net worth of Rs. 2,663 crore (vis-à-vis the minimum regulatory requirement of Rs. 300 crore), gearing of 0.1 times and capital-to-risk weighted assets ratio (CRAR) of 90% as on December 31, 2024. In this regard, considering its ambitious growth target and its intent to acquire a higher share in SRs in the SME and retail segments, the possibility of an increase in the leverage, in the medium term, cannot be ruled out. However, ICRA does not expect the leverage to cross the negative trigger threshold in the foreseeable future. Additionally, it is noted that ARCIL's average debt to average recoveries ratio has remained below 1.0 times in the last three years, providing good coverage against debt. Further, the company plans to pursue the co-investment model in the corporate segment, wherein its share in the issued SRs can be low.

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[2]*Excludes acquisition of gold loan pool of Rs. 700.8 crore*

[3] *31% of the AUM was unrated while 30% of the SRs held by ARCIL were unrated as on December 31, 2024. Unrated SRs primarily comprise recently issued SRs. ARCs are required to get SRs rated within six months of issuance*

Credit challenges

Volatile cash flows and earnings due to inherent nature of the business – The resolution process for stressed assets, especially corporate assets, involves a protracted recovery process with low recoveries in the initial years. Overall, given the inherent nature of the asset reconstruction business, the cash flows and profitability of the entities operating in this segment remain volatile. Further, the valuation of an ARC's assets and its management fee are linked to the recovery ratings of the SRs. Thus, any adverse movement in the recovery rating profile of the portfolio can have a bearing on the company's financial profile. It is to be noted that the recovery proceeds are first used for the payment of management fees and other expenses and dues, while the balance is used for the redemption of the SRs. Thus, the SR redemption ratio trails behind the recovery ratio.

ARCIL's reported return on assets (RoA) has been volatile and ranged between -3.7% and 11.2% in the last five years (FY2020 to FY2024). The 4-year average return on net worth (RoNW) was 8.3% during FY2020-FY2024. Supported by the recoveries on SRs and fee income, the performance remained adequate in 9M FY2025 with RoA and RoNW of 11.2% and 13.0%, respectively. Going forward, ARCIL's ability to achieve timely resolutions and healthy recoveries from its assets will remain important from a credit perspective.

Evolving nature of the industry with challenges in acquiring assets at reasonable prices – The asset reconstruction industry's prospects remain susceptible to regulatory changes. In this regard, while the amended regulatory framework[4] augurs well for established ARCs, ARCIL's ability to judiciously acquire new assets while maintaining a comfortable capital structure and a competitive borrowing cost will remain imperative. Moreover, the developments related to the securitisation of stressed assets and the commencement of National Asset Reconstruction Company Limited and their impact on the private players in the industry remain monitorable.

Liquidity position: Adequate

ARCIL's liquidity profile has been supported by healthy cash flows from recoveries and negligible dependence on borrowings. Further, the company has been maintaining adequate liquidity in the form of cash & equivalents and sizeable sanctioned and drawable bank lines. As on December 31, 2024, while cash & equivalents aggregated Rs. 41 crore, off-balance sheet liquidity in the form of undrawn bank lines (working capital facilities) stood at Rs. 410 crore (sanctioned limit: Rs. 570 crore). ICRA notes that the company has largely remained debt free with minimal utilisation of working capital facilities, except for a recently availed term loan, with an amount outstanding of Rs. 100 crore as on December 31, 2024. Additionally, ICRA believes that the key sponsor, Avenue, will provide funding/liquidity support (in the form of intercorporate deposits (ICDs)/loans) in case of contingencies. The sponsor has shown its support to ARCIL by participating as a co-investor in certain full cash deals with the trend expected to continue.

Rating sensitivities

Positive factors – A significant increase in the scale of operations and a sustained improvement in recoveries while maintaining strong capitalisation, achieving a diversified portfolio, and delivering healthy profitability and cash flows on a sustained basis will be credit positives.

Negative factors – The rating may face pressure if the company's profitability or the trajectory of its recoveries weakens significantly on a sustained basis. Moreover, a sharp increase in the leverage with a gearing of over 0.75 times may be a credit negative.

[4] Higher capitalisation level needed for undertaking ARC operations and lower investment requirement for acquisitions and the option to participate as a resolution applicant under the Insolvency and Bankruptcy Code (IBC)

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology – Non-banking Finance Companies (NBFCs)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2002, Asset Reconstruction Company (I) Limited (ARCIL) is India's first asset reconstruction company to commence the business of the resolution of non-performing assets (NPAs) acquired from Indian banks and financial institutions. It is sponsored by US-based Avenue Capital Group (largest shareholder with a 69.7% stake as of December 2024). The company is also sponsored by leading Indian bank including SBI. Its other shareholders include Karnataka Bank, The South Indian Bank and Federal Bank. These banks (including the sponsor bank) together hold 25.1% of the equity capital.

ARCIL has a pan-India setup with 12 branches and its broader asset acquisition policy remains sector agnostic. Additionally, it has tie-ups with over 200 collection agents at the pan-India level. Since inception, it has issued SRs totalling Rs. 37,763 crore. Gross SRs outstanding stood at Rs. 16,926 crore, of which SRs worth Rs. 9,900 crore were acquired in the last eight years. The NAV of the gross SRs acquired in the last eight years was Rs. 10,189 crore as on December 31, 2024. ARCIL's own share in gross SRs was Rs. 3,235 crore while the NAV (net of provision) of these SRs was Rs. 2,656 crore as on December 31, 2024.

ARCIL reported a profit after tax (PAT) of Rs. 249 crore in 9M FY2025 on gross balance sheet size of Rs. 3,067 crore and AUM of Rs. 16,926 crore. In FY2024, it reported a PAT of Rs. 304 crore on gross balance sheet size of Rs. 2,872 crore and AUM of Rs. 15,230 crore.

Key financial indicators (audited)

ARCIL – Standalone	FY2023	FY2024	9M FY2025*
Reported total income	753.7	574.1	440.8
Total income (including unreleased fair value losses, fees and write-off of SRs)	427.1	533.1	428.2
Profit after tax	239.1	304.0	249.4
Assets under management	16,223.5	15,230.0	16,926.5
Reported total assets	2,523.8	2,795.3	3,058.1
Return on average gross assets	9.6%	11.2%	11.2%
Gross gearing (times)	0.1	0.1	0.1
CRAR	96%	99%	90%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)		FY2025		FY2024		FY2023		FY2022	
			Mar 20, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD programme	Long term	300.0	[ICRA]AA- (Stable)	Apr 05, 2024	[ICRA]AA- (Stable)	Apr 03, 2023	[ICRA]AA- (Stable)	-	-	-	-
					[ICRA]AA- (Stable)	Jul 12, 2023	[ICRA]AA- (Stable)	-	-	-	-
Bank lines fund based – Others	Long term	1,200.0	[ICRA]AA- (Stable)	Apr 05, 2024	[ICRA]AA- (Stable)	Apr 03, 2023	[ICRA]AA- (Stable)	-	-	-	-
					[ICRA]AA- (Stable)	Jul 12, 2023	[ICRA]AA- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
NCD programme	Simple^
Bank lines fund based – Others	Simple

^ Subject to change based on terms of issuance

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate (%)	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**NCD programme***	-	-	-	300.0	[ICRA]AA- (Stable)
NA	**Bank lines fund based – Others**	-	-	-	1,200.0	[ICRA]AA- (Stable)

*Source: Company; *Yet to be placed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

Subhrajyoti Mohapatra
+91 80 4332 6406
subhrajyoti.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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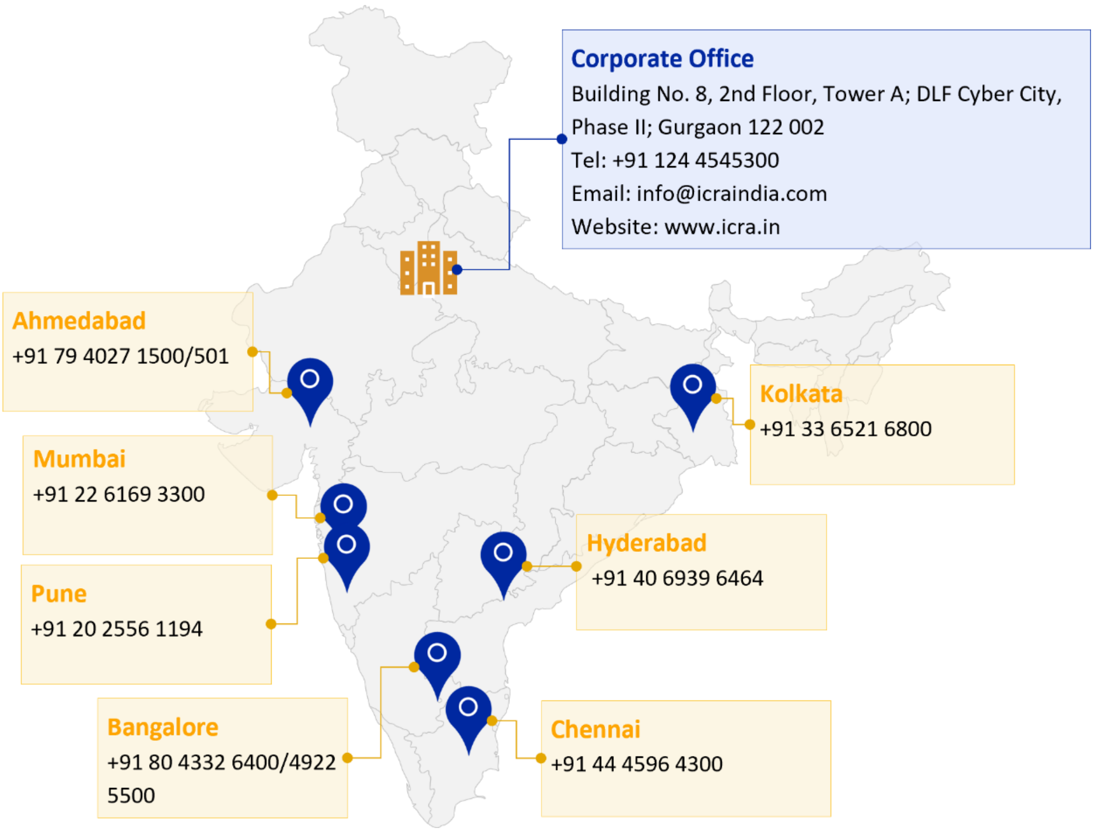

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