

February 17, 2026

Asset Reconstruction Company (India) Limited: [ICRA]AA- (Stable) assigned to NCD programme; rating reaffirmed and 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
NCD programme	-	200.0	[ICRA]AA- (Stable); assigned
Bank lines long term fund based – Others	1,200.0	1,500.0	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Total	1,500.0	2,000.0	

*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. 17,186 crore as on November 30, 2025. Its sponsors include Avenue India Resurgence Pte. Ltd. (Avenue; 70% stake), followed by State Bank of India¹ (SBI; 20%). ARCIL benefits from the expertise of its largest sponsor in the global distressed assets space and receives board-level oversight from Avenue Capital Group. Herer in, ICRA is cognisant of the proposed dilution in the stake of Avenue Group and SBI to ~49% and 14%, respectively, pursuant to the planned initial public offering (IPO)². Nevertheless, the combined stake of the two sponsors will continue to remain above 51% post-IPO.

ARCIL's capitalisation profile is characterised by a net worth of Rs. 2,859 crore and a gearing of 0.2 times as on September 30, 2025. The rating also considers the company's comfortable coverage metrics with average debt/average own share in recoveries of less than 1.0 times in the last three years. ARCIL's cumulative recoveries to cumulative acquisitions ratio improved to 72-75% in FY2024 and FY2025 from 62-65% between FY2021 and FY2023. It rose further to 77% in 8M FY2026, given the healthy recovery trajectory. Going forward, amid the ambitious 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. In this regard, while ICRA expects the dependence on borrowings to increase to support the envisaged scale-up, the gearing is expected to remain below 0.5 times over the medium term.

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. Also, the asset reconstruction industry's prospects have remained susceptible to regulatory changes. In this backdrop, ARCIL's ability to judiciously acquire new assets while maintaining a comfortable leverage will remain imperative for its credit profile.

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

² On August 1, 2025, ARCIL filed its Draft Red Herring Prospectus (DRHP) with the exchanges, wherein it has indicated to offer ~32% of its existing share capital to the public through a 100% book-building process. The IPO proceeds will accrue entirely to the existing shareholders through an offer for sale, resulting in Avenue Group and SBI's share declining to ~49% and 14%, respectively, from 70% and 20%, respectively

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, comprising a 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 maintain a prudent capitalisation profile.

Key rating drivers and their description

Credit strengths

Established track record in ARC industry – 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 on November 30, 2025, it had issued cumulative SRs of Rs. 40,222 crore and the SRs outstanding (gross AUM) were Rs. 17,186 crore. ARCIL's own share in the AUM was Rs. 3,586 crore. The net asset value (NAV) of the AUM stood at Rs. 10,744 crore while the NAV of ARCIL's own share was Rs. 3,270 crore as on November 30, 2025. 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, most ARCs reported a shift towards retail assets in recent quarters. ARCIL issued SRs aggregating Rs. 2,065 crore in 8M FY2026, with 72% representing retail assets, compared to Rs. 3,976 crore in FY2025 (retail: 33%). As on November 30, 2025, the AUM comprised corporate (69%), SME (9%) and retail loans (22%).

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. It has extended operational support to ARCIL by participating as a co-investor in acquisitions, although the partnership between the two entities remains non-exclusive. It also benefits from managerial supervision through its adequately diversified board, comprising two Sponsor Directors from Avenue, one from SBI and four Independent Directors.

Adequate track record of recoveries from assets – ARCIL has a long track record of recoveries, with healthy trends in the cumulative recoveries to cumulative acquisitions ratio over the years. The average annual recovery from AUM in the last three years was Rs. 3,426 crore; recoveries from AUM stood at Rs. 2,346 crore in 8M FY2026. It is noted that the NAV of the higher rated SRs (with expected recovery of more than 75%) formed 73% of the AUM³ as on November 30, 2025, while ARCIL's own share in higher rated SRs was 72% of its own AUM. 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. 28 crore in FY2026 and FY2027, 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. 2,859 crore (vis-à-vis the minimum regulatory requirement of Rs. 300 crore), gearing of 0.2 times and capital-to-risk weighted assets ratio (CRAR) of 84% as on September 30, 2025. In this regard, considering its ambitious growth target

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

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, the gearing is expected to remain below 0.5 times over the medium term. Additionally, it is noted that ARCIL's average debt to average own share in 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.

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 11.7% in the last ten years (FY2016 to FY2025). Nonetheless, the performance has been healthy in recent years with the 4-year average return on net worth (RoNW) standing at 11.3% during FY2022-FY2025. Supported by the recoveries on SRs and fee income, the performance remained adequate in H1 FY2026 with RoA and RoNW of 11.0% and 13.4%, 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 framework⁴ 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 modest 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, 2025, cash & equivalents aggregated Rs. 42 crore and undrawn bank lines (working capital facilities) stood at Rs. 106 crore, while debt outstanding stood at Rs. 413 crore towards term loans and Rs. 494 crore towards working capital facilities, of which ~Rs. 31 crore (includes principal and interest) was due for repayment in the next three months. The average quarterly cash inflows from recoveries and fees has been in the range of Rs. 200-250 crore in recent quarters. 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.

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.

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)

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 on a sustained basis in the near and medium term may be a credit negative.

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 the US-based Avenue Capital Group (largest shareholder with a 69.7% stake as of September 2025). The company is also sponsored by leading Indian banks, 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. On August 1, 2025, ARCIL filed its Draft Red Herring Prospectus (DRHP) with the exchanges, wherein it has indicated to offer ~32% of its existing share capital to the public through a 100% book-building process. The IPO proceeds will accrue entirely to the existing shareholders through an offer for sale (OFS), resulting in Avenue Group’s stake declining to ~49% from 70%, SBI’s to 14% from 20%, and others’ to 5% from 10%. Nevertheless, the combined stake of the two sponsors will continue to remain above 51% post-IPO.

ARCIL has a pan-India setup with 13 branches and its broader asset acquisition policy remains sector agnostic. Additionally, it has tie-ups with over 229 collection agents at the pan-India level. Since inception, it has issued SRs totalling Rs. 40,222 crore. Gross SRs outstanding stood at Rs. 17,185 crore, of which SRs worth ~Rs. 10,000 crore were acquired in the last eight years. The NAV of the gross SRs acquired in the last eight years was Rs. 10,538 crore as on November 30, 2025. ARCIL’s own share in gross SRs was Rs. 3,585 crore while the NAV (net of provision) of these SRs was Rs. 3,270 crore as on November 30, 2025.

ARCIL reported a profit after tax (PAT) of Rs. 188 crore in H1 FY2026 on gross balance sheet of Rs. 3,553 crore, it reported a PAT of Rs. 354 crore on gross balance sheet of Rs. 3,264 crore in FY2025.

Key financial indicators (audited)

ARCIL – Standalone	FY2024	FY2025	H1 FY2026*
Reported total income	574.1	623.4	341.4
Total income (including unreleased fair value losses, fees and write-off of SRs)	533.1	601.6	316.2
Profit after tax	304.0	354.0	188.3
Assets under management	15,230.0	16,852.6	17,186.0^
Reported total assets	2,795.3	3,263.8	3,553.0
Return on average gross assets	11.2%	11.7%	11.0%
Gross gearing (times)	0.1	0.1	0.2
CRAR	99%	91%	84%

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore; *Provisional; ^As of November 30, 2025

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

Instrument	Type	Current rating (FY2026)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Feb 17, 2026	FY2025		FY2024		FY2023	
				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)	-	-
				Mar 20, 2025	[ICRA]AA-(Stable)	Jul 12, 2023	[ICRA]AA-(Stable)	-	-
NCD programme	Long term	200.0	[ICRA]AA-(Stable)	-	-	-	-	-	-
Bank lines fund based – Others	Long term	1,500.0	[ICRA]AA-(Stable)	Apr 05, 2024	[ICRA]AA-(Stable)	Apr 03, 2023	[ICRA]AA-(Stable)	-	-
				Mar 20, 2025	[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*	-	-	-	500.0	[ICRA]AA- (Stable)
NA	Bank lines fund based – Others	-	-	-	1,500.0	[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

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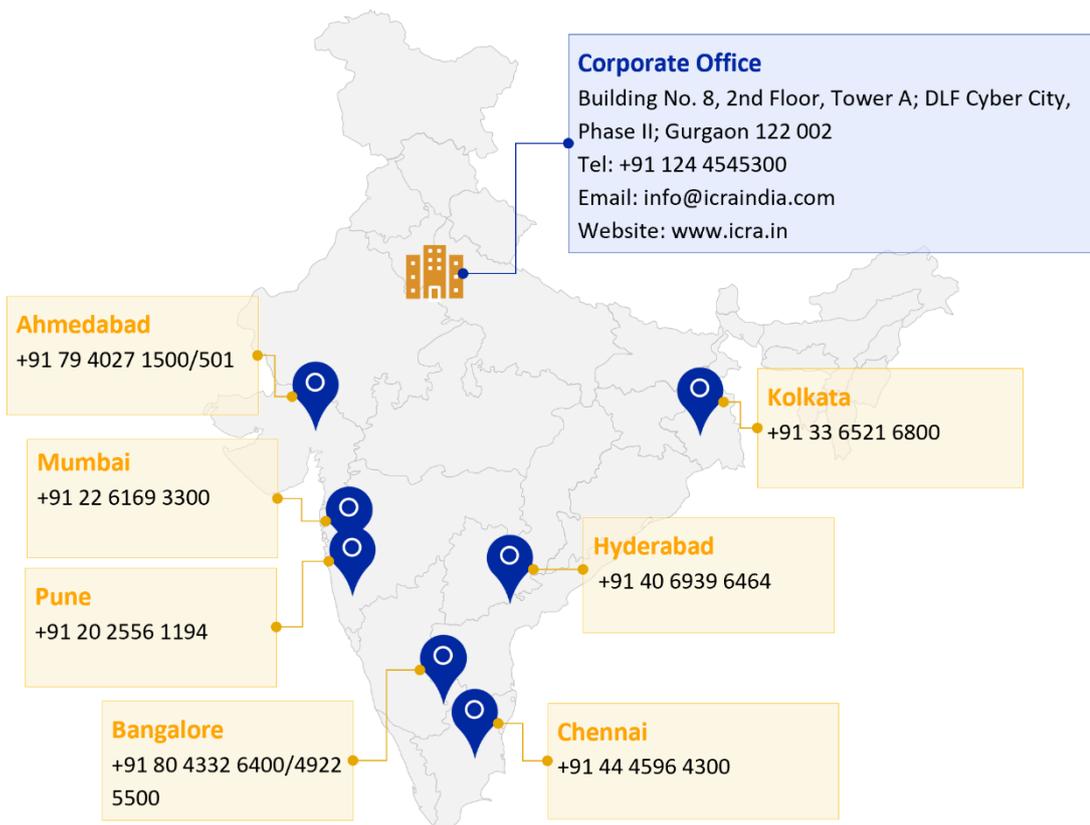
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