

Reliance Asset Reconstruction Company Limited

Instrument	Amount (in INR Crores)	Rating Action (March 2016)
Long Term Debt Programme	50	[ICRA]A+ (stable) reaffirmed
Short Term Bank Lines	50	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the rating of [ICRA]A+ with stable outlook to the Rs. 50 crore Long Term Debt programme of Reliance Asset Reconstruction Company Limited (RARC). ICRA also has reaffirmed the rating of [ICRA]A1+ to the Rs. 50 crore Short Term Bank Lines of RARC.

The rating draws comfort from the 49% shareholding of Reliance Capital Limited, focus on the retail and SME asset classes perceived to be less risky as compared to large credits, expected managerial and operational support from Reliance Capital Ltd. and the domain knowledge and experience of the senior management. The rating also factors in the comfortable capitalization profile of RARC with low gearing. The rating remains constrained by the short track record of the company, 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, limited tie-ups with banks for bank lines and weak operating environment post Aug-14 regulatory changes with limited deals happening in the ARC space.

Reliance Asset Reconstruction Company Limited (RARC) was incorporated in 2008, with Reliance Capital Limited forming 49% of the shareholding of the company along with Corporation Bank and Indian Bank as other sponsors. The company has, over the years, gradually increased its Assets under Management (AUM) to Rs. 1,088 crore as on Mar-15 with its investments at Rs. 179 crore and focussed majorly on Retail and SME assets. The AUM of the company further increased to Rs. 1,325 crore as on Sep-15 with Retail and SME assets forming ~75% of the AUM. The company opportunistically acquires corporate assets wherein it has atleast 60% pledge over the collateral. Going forward, the company will continue to focus on Retail and SME assets and may acquire some corporate assets. RARC has till Sep-15 acquired debt aggregating to Rs. 1,810 crore of which ~Rs. 1,325 crore remains outstanding with the balance being redeemed.

The income profile of the company is dominated by the Fee Income it earns on its portfolio. The company's income level increased in FY15 due to sharp increase in its AUM during the year. Total income of the company increased from Rs. 14.42 crore in FY14 to Rs. 20.09 crore in FY15. During H1FY16, the total income further increased with an increase in AUM of the company to Rs. 15.71 crore. Operating expenses increased during FY15 as the company moved to its own office during the year. Cost to income ratio was reported at ~31% in FY15 vis-à-vis ~25% in FY14. It remained stable at ~34% during H1FY16. RARC reported a net profit of Rs. 8.01 crore in FY15 (RoE of ~6.29%) as compared to Rs. 6.82 crore in FY14 (RoE of ~5.53%). During H1FY16, the company reported net profit of Rs. 5.76 crore (RoE of ~8.70%).

Funding profile of RARC is dominated by Inter Corporate Deposit from Reliance Capital Ltd., the sponsor of the company, to the tune of Rs. 50 crore as on Sep-15. The company meets its balance funding needs from bank limits. The company currently has tie-up with only Kotak Mahindra Bank for a Rs. 50 crore fund based limit. With a Net worth of around Rs. 135 crore as on Sep-15, RARC's gearing remains comfortable at ~0.5 times. Going forward, the ability of the company to mobilize further funds to bid for and acquire more delinquent assets at reasonable rates will remain a key monitorable. In addition, the track record is short to comment on RARC's resolution capabilities, a key parameter in evaluating the ARC businesses. However, the company has been able to report profits for the last 5-6 years with low operating expenses and no significant credit loss in the portfolio till date which provides some comfort.

The board of directors for the company has representation from Reliance Capital, Corporation Bank and Indian Bank. Acquisition and Resolution committee consists of three directors – one of which is a Reliance Capital Nominee and the other two are independent directors. The senior management of RARC led by the CEO has varied experience in the finance field. Currently the team is small and there are no immediate plans to hire employees or increase locations.

Company Profile

Reliance Asset Reconstruction Company Limited (RARC) was incorporated in 2008, with Reliance Capital Limited forming 49% of the shareholding of the company along with Corporation Bank and Indian Bank as other sponsors. The company has, over the years, focused on acquiring and resolving retail and SME assets which formed ~75% of its total AUM as on Sep-15. During FY15, the company reported a net profit of Rs. 8.01 crore on a total income of Rs. 20.09 crore as compared to a net profit of Rs. 6.82 crore on a total income of Rs. 14.42 crore for FY14.

Recent Results

During H1FY16, the company reported a net profit of Rs. 5.76 crore on a total income of Rs. 15.71 crore.

March 2016

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