

# Proposal : Investment in Security Receipts

InvestmentTranch	₹ 280 million
Portfolio	Retail
Rating	NR1 (India Research & Ratings)
NAV	204 %
Maturity	24 months

## Investment opportunity in Security Receipts of secured mortgage NPA portfolio

### Arcil platform and Resolution

Arcil is the pioneer in Retail NPA acquisition and resolution and has proved its ability to deal with retail NPAs across various geographies, asset classes and different banks ranging from Public Sector to Private and MNC banks.

- Retail Resolution started with first acquisition in September 2007 & has so far acquired assets from private & public sector banks and financial institutions.
- The retail division has now spread its operation to 17 branches in 14 states with employee strength of 300 which helps to cater 600 cities/towns.
- Recoveries have largely been as per projections or better than that with NAV in all its retail trusts are 100% or above .
- Arcil has created a 'State of Art' scalable technology platform to facilitate efficient operations.
- To efficiently handle business volume, in-house infrastructure as well as outsourced agencies are used for various activities.
- In-house marketing team was put in place to provide dedicated marketing service of possessed assets.

**Resolution:** Our approach towards resolution is to enable borrowers to take right decisions based on a counseling rather than going into litigations and possessions. Majority of the recoveries so far has been through mutual co-operation, negotiation and settlement between the borrower and Arcil. Although we take prompt legal action in cases where borrowers are not paying to us, it is always our endeavor to amicably settle the case with the borrower which also results in preponing the recovery and reducing costs related to further legal expenses.

Objective of legal action is always to get the borrower on the negotiating table and in large majority of cases borrowers actually negotiate and close the accounts during some stage of the legal cycle.

# Investment Background

Arcil acquired mortgaged NPA portfolio (secured loans) from a Public Sector Bank in June 2014 consisting of 5,469 loans spread across India. The portfolio was acquired for cash consideration and Arcil continues to be the sole subscriber of the Security Receipts.

**Investment** : For Retail loan pools, we typically use sampling basis for evaluation of collection prospects. Here a size of 5% by numbers and 15% by value was taken to evaluate

- Legal documentation

- Property valuation

Results were extrapolated on the population to evaluate parameters and also included

- Original underwriting basis

- Percentage of pools with payment histories

- CIBIL record matches/reporting

- Quality of documentation

- Current Loan to Value rates

Our proprietary knowledge base of collection histories & track record of other portfolios, cost to collect & geography specific issues was overlaid to provide a narrow range of valuation basis to bid for a minimal target return. Risks like frauds, missing title deeds, incorrect balances were mitigated by taking appropriate "Reps & Warranties" from the Seller Bank. They were also factored in pricing.

## Portfolio on Offer

### At the time of Acquisition - June 27, 2014

Number of Accounts	5,469
Total Outstanding	₹ 4750 million
Average ticket size	₹ 0.44 million
Security Receipts Issued	₹ 1505.8 million

Region	No. of Accounts (%)	
South	1,164	21%
North	2,223	41%
East	1,553	28%
West	362	7%
Central	167	3%
<b>Grand Total</b>	<b>5,469</b>	<b>100%</b>

Underlying collateral are mostly residential flats, land & houses which have been funded largely during the period 2002 to 2007.

## Current status of Portfolio (as on December 31, 2016)

Number of accounts Closed and Exited	1071 ( 20% by numbers)
Recovery in closed accounts	₹ 709 million
Number of accounts – LIVE	4,398
Total Dues	₹ 5075 million
Gross recovery till 31st Dec'16	₹ 1002.7 million
Security Receipts Redeemed	₹ 820.4 million
Security Receipts Outstanding	₹ 685.3 million

## Rating

The portfolio is rated for recovery rating by the Rating Agency “**India Ratings & Research Pvt. Ltd.**” bi-annual to assess the performance of the portfolio. The Rating as of Dec 31, 2016 is **NR1** which is the highest rating that could be assigned. The rating translates into an expected (Net Asset Value) of 150% or above of the outstanding Security Receipts. India Ratings (The 100% subsidiary of **Fitch Group** is India's Most Respected credit rating agency committed to providing the India's credit markets with accurate, timely and prospective credit opinions) have been associated with Arcil in its retail business since inception and are known to have a conservative outlook considering higher perceived risk of NPA accounts.

### Rating at a Glance:

#### **NR1**

*Instruments with this rating are considered to have a very high present value of the expected collections from the underlying collateral, estimated at over 150% of the SR face value.*

#### **NR2**

*-high present value of the expected collections from the underlying collateral*

*-estimated at 100%-150% of the SR face value.*

#### **NR3**

*-good present value of the expected collections from the underlying collateral*

*-estimated at 75%-100% of the SR face value.*

#### **NR4**

*-medium present value of the expected collections from the underlying collateral*

*-estimated at 50%-75% of the SR face value.*

#### **NR5**

*-poor present value of the expected collections from the underlying collateral*

*-estimated at 25%-50% of the SR face value.*

#### **NR6**

*-lowest present value of the expected collections from the underlying collateral*

*- estimated at below 25% of the SR face value.*

source: <https://www.indiaratings.co.in>



## Investment Case

- ▶ A performing home loan NPA portfolio amenable to regular recoveries and cash flows.
- ▶ The portfolio is currently rated as NR 1(highest band) by India Ratings which translate into NAV of 150% of above of outstanding Security Receipts.
- ▶ More than 30 months of seasoning with Arcil and no lead time for investor for pay backs.
- ▶ This has also given much greater understanding of the portfolio reducing uncertainties and risks.
- ▶ Recoveries in future are likely to be at a better rate than the initial and current estimates since the loan accounts will continue to accrue interest.
- ▶ Deficiencies in collateral value & documentation have been well factored in pricing of the portfolio.
- ▶ We expect complete redemption of Security Receipts to happen in next 18-20 months. It is estimated that against an Security Receipts outstanding of ₹ 685.3 million, future gross recoveries should be in the range of ₹ 2800 to ₹ 3200 million.
- ▶ We expect that 80% of the recoveries will come over next 4 years with balance getting tapered down in future.
- ▶ Investment gain on date of subscription.

## Arcil's promise

- ▶ Arcil is currently the sole investor in the portfolio since its acquisition from June 2014.
- ▶ A small share of the portfolio is being proposed for sale to an external investor.
- ▶ Arcil shall remain invested at all times in the portfolio by minimum of 25% of the SR outstanding.

## Strength of Portfolio

- ▶ Secured – Retail loans
- ▶ Risk spread out over multiple borrowers in multiple geographies
- ▶ SARFAESI applicable
- ▶ Regular cash flows
- ▶ Portfolio now well seasoned with Arcil

## Risk Factors

- ▶ NPA pool – no regular, pre-agreed repayments
- ▶ Recoveries not consistent across all geographies
- ▶ Legal actions are time consuming.
- ▶ Recovery of complete dues in all accounts is not certain

## Post Sale Support

- ▶ Recovery proceeds are distributed in a 10 days recovery cycle. MIS with details of distribution is shared along with each distribution & with the mixture
- ▶ Net Asset Value statement along with portfolio performance MIS is released to investors each quarter

## Documentation

- ▶ Investor application form duly filled, signed and stamped, needs to be provided
- ▶ Corporate action form should be filed with NSDL through our RTA ( 3i Infotech)

## Term Sheet for Pricing

▶ Security Receipts Issued	:	15,05,766
▶ Face Value (Current value of each SR)	:	₹ 455.14
▶ Security Receipts Outstanding	:	₹ 685.3 million
▶ Gross Recovery	:	₹ 1002.7 million as of December 31, 2016
▶ Expected future recovery	:	₹ 2800 to ₹ 3200 million
▶ NAV of the trust	:	204% of Security Receipt outstanding(By value)
▶ SRs proposed to be sold	:	25% of the SR outstanding (By value)

# Waterfall Structure for distribution of recovery

Recoveries made in the trust shall be distributed as per the following

- ▶ Management fee of 2.00% p.a. on outstanding Security Receipts.
- ▶ Legal, statutory, rating and expenses paid to external agencies will be debited to the trust as per actuals; All costs necessary for protection, preservation and insurance are debited to the trust.
- ▶ Collection fee of 6% on the gross recoveries shall be payable to the Trustee.
- ▶ Redemption of the outstanding Security Receipts on pari passu basis between Security Receipts holders.
- ▶ Excess recovery after providing for expenses and redemption of the Security Receipts holders as per agreed terms, shall be shared between the Security holders.

## Expected IRR(Net of fees) to Investor

It is expected that on an investment of ₹ 274.1 million free cash flows shall be ₹ 384.4 million for scenario 1, ₹ 405.5 million for scenario 2 and ₹ 426.5 million for scenario 3. It is expected that 80% of the cash flows shall come within 4 years of making the investment while remaining 20% may spill over in few years thereafter.

- **Scenario 1:** Future gross recoveries of ₹ 2800 million (Conservative and negligible risk estimate), the IRR to the investor is 15%.
- **Scenario 2:** Future gross recoveries of ₹ 3000 million (Likely but conservative estimate), the IRR to the investor is 18%.
- **Scenario 3:** Future gross recoveries of ₹ 3200 million (Achievable and targeted estimate), the IRR to the investor is 20%.

## Important Information

- The cash flows generated in the trust shall be distributed as per the waterfall structure given above.
- The upside sharing will be in the ratio of investment done in value terms in Security Receipts on the date of acquisition.

## Contact us

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