

Asset Reconstruction Co.(India) Ltd – IPO Investment Note

Issue Open	Issue Close	Price Band (₹)	Rating
09 September 2026	11 September 2026	₹132-139	Neutral

Investment Summary

Asset Reconstruction Company (India) Limited presents a differentiated stressed-asset resolution franchise, supported by its first-mover position in the Indian ARC industry, established relationships with banks and financial institutions, and a diversified resolution platform spanning corporate, SME and retail portfolios. The company benefits from its strong acquisition and recovery capabilities, growing retail presence and ability to generate both fee-based and investment-linked income, while the evolving stressed-asset landscape and upcoming ECL transition provide a supportive industry backdrop. However, the business remains inherently sensitive to the quality and pricing of assets acquired, timing of recoveries, competitive intensity and funding requirements, warranting a measured view on the issue. Key monitorables going forward include sustained AUM growth and acquisition momentum, recovery rates and resolution timelines, quality of investment income, capital deployment and leverage, and the company's ability to scale retail and SME portfolios without compromising risk-adjusted returns. Considering the established franchise, structural industry opportunity and reasonable valuation, balanced against the inherent variability and risks of the ARC business, we recommend a **"Neutral"** stance on the issue.

Company Overview

Asset Reconstruction Company (India) Limited (ARCIL), incorporated in 2002 and headquartered in Mumbai, is India's first asset reconstruction company (ARC), having received its RBI certificate to commence operations in 2003. The company is engaged in acquiring stressed assets from banks and financial institutions and implementing resolution strategies to maximize recoveries and optimize asset value. ARCIL operates across three key verticals - Corporate loans, Retail loans and SME & Other loans and has evolved into the second-largest private ARC in India by AUM, with assets under management of ~₹201.5 billion as of March 31, 2026, up from ₹168.5 billion in FY25. Its promoter base comprises Avenue India Resurgence Pte. Ltd. (~70%) and State Bank of India (~20%), providing the company with established relationships across the banking and financial services ecosystem.

Business Model

ARCIL's business model begins with the acquisition of stressed assets from banks and financial institutions, either individually or as pooled portfolios. The company undertakes detailed credit, legal, collateral and borrower diligence to assess recovery potential before bidding for these assets. The acquired portfolios include non-performing assets, SMA accounts and written-off accounts across its Corporate, Retail and SME & Other verticals.

The acquisitions are largely structured through trusts that issue Security Receipts (SRs) to Qualified Buyers, with the proceeds used to pay the selling banks/financial institutions. Depending on the structure, ARCIL may subscribe to the entire SR issuance through cash acquisitions or co-invest alongside other investors and/or the selling bank. The company then manages the underlying stressed assets and deploys resolution mechanisms including settlements, restructuring/rescheduling, enforcement of security interests, IBC proceedings, DRT/SARFAESI-related asset sales and technology-enabled collection strategies, particularly for retail portfolios.

ARCIL monetizes its asset resolution platform through multiple revenue streams, primarily management/trusteeship fees, portfolio recovery fees and investment income. Management fees are charged to trusts for managing stressed assets, while portfolio recovery fees are linked to collections generated from certain portfolios. Investment income represents ARCIL's share of profits/upside from recoveries after applicable expenses and investment costs, while the company may also recognize write-backs from amounts recovered against previously written-off investments, fees and expenses. This diversified fee-plus-investment model allows ARCIL to participate in the economic upside of asset recoveries while generating recurring income from the AUM it manages.

Financial Performance

- **Revenue CAGR ~ (FY24–FY26): ~14.9%**, with revenue from operations increasing from ₹570.14 Cr in FY24 to ₹596.42 Cr in FY25 and ₹753.04 Cr in FY26, supported by higher fees and other income, increased investment income and fair value gains on security receipts.
- **EBITDA:** ₹416.36 Cr (FY24) → ₹491.88 Cr (FY25) → ₹588.93 Cr (FY26), while margins are at ~78.21% in FY26.
- **PAT trajectory:** ₹305.34 Cr (FY24) → ₹355.32 Cr (FY25) → ₹407.84 Cr (FY26) with a 54.16% margin.
- **Return metrics:** return on Average Equity (RoE) stood at 13.95% in FY26 versus 13.59% in FY25 and 12.99% in FY24, while Return on Average Total Assets stood at 10.56%, 11.73% and 11.48%, respectively.
- **Balance sheet:** Net worth stood at ₹307.94 Cr as of FY26, with total borrowings of ₹120.55 Cr and a Debt-to-Equity ratio of 0.39x. Cash & cash equivalents stood at ₹32.74 Cr as of FY26.
- **Key Ratios:** Basic EPS ₹12.55, NAV ₹94.78 per share.

Financial Snapshot

Metric	INR CR		
	FY24	FY25	FY26
Revenue from Operations	570.14	596.42	753.04
EBITDA	416.36	491.88	588.93
EBITDA Margin	73.03%	82.47%	78.21%
Profit After Tax (PAT)	305.34	355.32	407.84
PAT Margin	53.56%	59.57%	54.16%
Basic EPS (₹)	9.40	10.94	12.55

Note: The financial performance above is presented on a standalone basis, consistent with the RHP's disclosed standalone revenue, PAT, EBITDA and EPS data. The RHP separately notes that its consolidated financials include trusts where ARCIL's SR investment exceeds the relevant consolidation thresholds, and therefore standalone and consolidated numbers should be read together.

Investment Rationale

1. Pioneer franchise with strong position in the ARC industry:

ARCIL was the first ARC to be incorporated in India in 2002 and has built a long operating track record in stressed-asset acquisition and resolution. With AUM of ₹2,015.0 Cr as of FY26, it is the second-largest private ARC in India, providing meaningful scale and an established position with banks and financial institutions.

2. Strong recovery capabilities supported by diversified resolution mechanisms:

The company has developed specialized resolution and collection teams across Corporate, SME & Other and Retail portfolios, using IBC proceedings, settlements, restructuring, SARFAESI/DRT actions and other recovery mechanisms. Its collections framework, coupled with established relationships with banks and Qualified Buyers, supports efficient monetisation of acquired stressed assets.

3. Rising AUM and increasing traction in retail stressed assets:

ARCIL's AUM increased from ₹1,523.0 Cr in FY24 to ₹1,685.3 Cr in FY25 and ₹2,015.0 Cr in FY26, with Retail AUM growing much faster from ₹194.2 Cr to ₹474.5 Cr over the same period. The company is also expanding into unsecured and MFI portfolios, which offer opportunities to acquire stressed assets at attractive discounts and potentially generate higher recoveries.

4. Strong acquisition momentum and improving operating performance:

Total stressed-asset acquisitions increased from ₹206.9 Cr in FY24 to ₹397.6 Cr in FY25 and ₹595.9 Cr in FY26, while the company's bid conversion ratio improved to 79.29% in FY26 from 69.13% in FY25. This acquisition momentum has translated into standalone revenue CAGR of ~14.9% and PAT CAGR of ~15.6% over FY24–FY26.

5. Healthy profitability with a differentiated investment-income component:

ARCIL recorded PAT of ₹407.8 Cr in FY26, while Return on Average Equity stood at 13.95%. Notably, the company reported the highest average investment income as a percentage of average AUM among the ARCs in the peer set during FY23–FY25, highlighting its ability to generate returns not only from management/fee income but also from its own investments in security receipts.

6. Structural growth opportunity from retail stress and ECL transition:

The shift in the ARC industry towards retail and MSME stressed assets, combined with the RBI's upcoming Expected Credit Loss framework from April 2027, could increase the supply of early-stage stressed/SMA assets available for sale by banks. ARCIL's growing retail franchise, technology-enabled collection infrastructure and expanding rural/semi-urban reach position it to participate in this emerging opportunity.

Key Risk Factors

1. Recovery outcomes are inherently uncertain and dependent on distressed borrowers:

ARCIL's earnings and cash flows ultimately depend on its ability to recover value from stressed assets whose borrowers are often financially weak, undergoing restructuring or bankruptcy proceedings. Delays in resolution, lower-than-expected collateral realization or unsuccessful restructuring can adversely impact recoveries and profitability.

2. High dependence on successful acquisition of stressed assets:

Sustainable growth depends on sourcing sufficient stressed assets at appropriate prices, while competition in bidding can increase acquisition costs and compress potential returns. In FY26, ~67% of acquisitions by value were sourced from the top five selling banks/FIs, also indicating meaningful dependence on the banking ecosystem for asset supply.

3. Capital-intensive business with rising borrowings:

ARCIL needs substantial capital to invest in Security Receipts and acquire stressed assets, making access to debt and equity funding important for growth. Consolidated borrowings rose to ₹1,205.5 Cr as of FY26 from ₹305.9 Cr in FY25, with the standalone Debt/Equity ratio increasing to 0.39x from 0.11x, increasing sensitivity to funding availability and financing costs.

4. Competitive intensity, including government-backed NARCL:

The Indian ARC industry remains competitive, with private players such as Edelweiss ARC, Phoenix, JM Financial ARC, ACRE and Omkara competing for stressed assets. NARCL, backed by public sector banks and Government-backed Security Receipts, can have an advantage in acquiring large distressed accounts and may reduce the pool of assets available to private ARCs.

5. Valuation and asset-quality assessment risk:

Unlike conventional financial assets, stressed assets do not have readily ascertainable market prices, requiring ARCIL to estimate recovery values based on collateral, borrower quality, sector conditions and expected resolution outcomes. Errors in due diligence, valuation assumptions or information provided by borrowers/banks could result in overpaying for portfolios and subsequently lower recoveries or write-offs.

IPO Details and Use of Proceeds

Parameter	Details
Issuer	Asset Reconstruction Co.(India) Ltd.
IPO Issue Size	Total Issue Size: ₹732.97 Cr OFS of 732.97 Cr
Price Band	₹132 – ₹139 per share
Face Value	₹10 per share
Post-Issue Market Cap	Approx. ₹4516 Cr
IPO Opening Date	09 September 2026
IPO Closing Date	11 September 2026
Listing	NSE / BSE
Promoter Holding (Pre/Post)	Pre-IPO: ~ 89.68% → post-IPO: ~ 78.67%
Book Running Lead Managers	IIFL Capital Services Limited IDBI Capital Markets & Securities Limited JM Financial Limited

Valuation and Outlook

At the **upper price band of ₹139 per share**, Asset Reconstruction Company (India) Limited implies a **post-issue market capitalisation of approximately ₹4,516 crore**. Based on FY26 standalone PAT of ₹407.84 crore and EPS of ₹12.55, the **implied P/E works out to ~11.1x**, while the issue is valued at **~1.47x P/B** on FY26 book value (NAV) of ₹94.78 per share. Given the absence of listed ARC peers in India, P/E and P/B are the most relevant valuation benchmarks, with P/E offering a useful cross-check while P/B captures the importance of the company's capital base and Security Receipt investments. ARCIL also compares favourably on operating parameters, being the second-largest private ARC by AUM, while recording the highest average investment income as a percentage of AUM among the peer set and the highest PAT as a percentage of AUM among private vintage ARCs in FY25. Despite the reasonable entry valuation, earnings remain sensitive to the timing and success of stressed-asset recoveries, acquisition volumes, fair-value movements and funding costs. The outlook is supported by the company's growing retail AUM, increasing acquisition activity and the potential for the RBI's ECL implementation to create a larger pipeline of stressed and SMA assets for ARCs from FY27 onwards. Considering the company's established franchise, healthy profitability, strong position in the private ARC segment but fair P/E & P/B valuation, we recommend a **"Neutral"** stance on the issue, while investors should closely monitor recovery performance, AUM growth, investment income quality and capital requirements post listing.

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