



Press Release

Omkara Assets Reconstruction Private Limited (OARPL)

June 16, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Proposed Fund Based Working Capital Facilities – Cash Credit	150.00	IVR BBB+ / Positive Outlook [IVR Triple B Plus with Positive Outlook]
	Total	150.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The assigned rating derives strength from an experienced & qualified management team, relatively higher haircut of the acquired portfolio with a healthy mix of cash/security receipts deals and growing scale of operations. The Rating also takes into the account that being an ARC, OARPL is covered under SARFAESI Act, with a focused approach towards NPA resolution. However, these strengths are partially offset by concentrated portfolio, capital adequacy ratio marginally above the regulatory requirement and sector specific factors such as intense competition in the Asset Reconstruction sector, poor track record of resolution of stressed assets in India, risk associated with any adverse changes in the distressed assets policy framework and vulnerability of earning profile of ARCs due to volatile nature cash flows.

The positive outlook reflects the expected substantial improvement in the scale of operations and overall debt protection metrics.



Press Release

Key Rating Sensitivities

Upward Factor

- Substantial increase in AUM, along with increased stable revenue stream from asset management fees and significant recoveries and redemptions of SRs, followed by an increase in the scale of operations & improvement in capital adequacy ratio. This will lead to a rating upgrade.

Downward Factor

- Lower than expected acquisition of new assets, delay in resolutions of assets purchased in the past and/or a sharp rise in gearing along with any deterioration in capital adequacy ratio. This will lead to a rating downgrade.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced & qualified management team:

OARPL is promoted by Dr Arumugam Sakthivel and CA Manish Lalwani. Dr Arumugam Dr. Sakthivel is an internationally acclaimed textile exporter cum entrepreneur. He is a Padmashree awardee and a Conferred Doctorate from Bharathiyar University for his yeomen services to the exporter community especially the MSME Sector. Earlier, he headed AEPC and FIEO and had been Director in UCO Bank, IDBI Bank, ECGC and SIDBI thereby gaining very wide experience in the field of Finance and Banking. CA Manish Lalwani is a Chartered Accountant and holds Masters Degree of Commence. He has over 15 years of experience in origination, structuring and executing transactions. The promoters have rich experience in the financial industry and are supported by team of experts.

OARPL's board comprises of experienced and professionals as independent directors which includes Mr. Dwarko Ghanomal Rajpal (Former General Manger – Recovery, Central Bank of India), Mr. S. A. Ramesh Rangan (Former Advisor to the Govt. of India, Ministry of Finance, Banking Division. He has also served as Managing Director of State Bank of Patiala from November 2013 to March 2017), Mr. Sanjay Babulal Chokshi, Mr Sathiyarayanan Srinivasan (He advises Corporates, NGOs, Banks, NBFCs and ARCs in areas of structuring transactions, Commercial litigations, Corporate Law, Debt Banking Laws, Property Laws, IPR Laws and Taxation laws. He is on the panel of various Banks and



Press Release

ARCs.), Mr Srenik Sett and Mr N. S. Venkatesh (Former whole time Director of Lakshmi Villas Bank).

Covered under SARFAESI Act, with a focused approach towards NPA resolution:

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 introduced ARCs as intermediaries to buy NPAs from bank on payment of a part of acquisition cost in either cash or under structured model of SR's. Present NPA laden banking scenario and high focus to solve the NPA problems indicates enormous opportunities for ARCs.

Relatively higher haircut of the acquired portfolio with a healthy mix of cash/ security receipts:

The acquisition Cost as a percentage of Loans outstanding stood at around 30% for cumulative assets acquired as on March 31, 2020. Bidding and acquiring assets with higher discounts leading to higher recoveries in terms of % recoveries and upsides and returns. The healthy mix of cash/security receipts with respect to acquisition of financial assets lead to steady cash flows from management fees as well.

Growing Scale of operations

The company stated its operation in December 2015 with acquisition of Rs. 5 Crs of assets from South Indian Bank. Furthermore, the growth was substantial in the last two years ended FY20. The investment comprising of financial assets acquired on its books scaled up and stood at Rs. 625.12 Crs as on March 31, 2019 and Rs. 512.76 Crs as on March 31, 2020. The AUM (including security receipts issued) was at Rs.1437.60 as on March 31, 2020. However, the operational track record remains limited.

Key Rating Weaknesses

Concentrated portfolio:

The company has ~52% of its AUM pertaining to iron and steel sector which indicates portfolio concentration risk. However, the promoter's exposure to industry also gives distinct advantage in recovery. Furthermore, steel segment has seen recovery through IBC process or otherwise during last couple of years. Also, OARPL has resolved cases in the said sector.



Press Release

Capital Adequacy ratio marginally above the regulatory requirement:

The capital adequacy ratio stood at 16.90% in FY19, which is just marginally above the regulatory requirement of 15%. However, the same has improved to ~20.21% in FY20 (Provisional). The promoters has intended to infuse the capital as and when required. In FY20, the promoters has infused funds in the form of compulsorily convertible debentures to the tune of Rs 30 Crs.

Poor track record of resolution of stressed assets in India:

The Indian distressed assets market is still in a nascent stage with limited seasoning. The sector is gradually growing with more regulatory policies taking shape. Generally, the track record of resolution of stressed assets in India is poor. However, with the onset of the IBC (Insolvency and Bankruptcy Code) in India, the situation is likely to improve. Further, OARPL has a track record in terms of recoveries in past 2 fiscals and has already recovered to the tune of approx. 30% of the total assets acquired.

Intense competition in the Asset Reconstruction sector:

There are ~28 registered ARCs in India, which manage more than Rs. 1 lakh Crs of AUM as of 31-Mar-2019. The competition in the stressed asset market is on the rise with an increase in the number of players. Also, due to the change in the model of ARCs to more cash-based buying as against largely a security receipts-based model adopted earlier, big players may give stiff competition to smaller players.

Risk associated with any adverse changes in the distressed assets policy framework:

The Company is exposed to risk emerging out of any adverse changes in the distressed assets policy framework. In spite of having sufficient asset acquisition and resolution policy framework, ARCs might keep on confronting difficulties given the inherent nature of the business and the asset reconstruction industry as a whole.



Press Release

Vulnerability of earning profile of ARCs due to volatile nature cash flows:

The recoveries might not always be as estimated, as the resolution of stressed assets is subject to many factors. Due to nature of its business the recoveries from acquired assets is difficult to predict. However, OARPL has acquired financial assets with healthy mix of cash/security receipts which mitigate the risk to some extent.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Non-Banking Finance Companies

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The TNW of OARPL has increased to Rs. 143 Crs in FY20 (Provisional). Further, OARPL has plans to infuse funds into the business by the way of equity. Also, the proposed Bank lines will be creating liquidity of ~Rs 150 Crs. The cash and equivalents stood at Rs. 40.98 Crs in FY20 (Provisional).

About the Company

Omkara Assets Reconstruction Private Limited (OARPL) was incorporated in March, 2014 by Mr. A. Sakthivel and later on spearheaded by Mr. Manish Lalwani. The company was registered with the Reserve Bank of India as an asset reconstruction company RBI Registration certificate dated October 5, 2015. Business of the company is mainly conducted from its corporate office situated in Mumbai and company has presences in major cities such as Chennai, Delhi, Kolkata and Tirupur to facilitate the business operations.

Financials (Standalone)

(Rs. crore)

	31-03-2018	31-03-2019	31-03-2020
For the year ended* / As On	(Audited)	(Audited)	(Provisional)
Total Operating Income	3.81	23.89	52.65
Net Interest Income	(0.65)	(4.77)	(26.66)
PAT	0.50	5.31	6.95



Press Release

Total Debt	55.16	511.70	403.76
Tangible Net Worth	47.65	106.18	143.00
Ratios			
PAT Margin (%)	13.24	22.24	13.20
Overall Gearing Ratio (x)	1.16	4.82	2.82
Total CAR (%)	45.29%	16.90%	20.21%

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Proposed Fund Based Working Capital Facilities – Cash Credit	Long Term	150.00	IVR BBB+ / Positive Outlook	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Parthkumar Thakker

Tel: (022) 62396023

Email: pthakker@infomerics.com



Press Release

Name: Mr. Amit Bhuwania

Tel: (022) 62396023

Email: abhuaniania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Fund Based Working Capital Facilities – Cash Credit	--	--	--	150.00	IVR BBB+ / Positive Outlook