



Press Release

Omkara Assets Reconstruction Private Limited (OARPL)

December 03, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Proposed Fund Based Working Capital Facilities – Cash Credit	50.00(Reduced from 150.00)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Revised
2.	Proposed NCDs	100.00 (Reclassified from Proposed Cash Credit)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
	Total	150.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating reflects the overall improvement in the performance of OARPL during FY20 along with healthy performance during H1FY21.

The rating continues to derive strength from an experienced & qualified management team and relatively higher haircut of the acquired portfolio with a healthy mix of cash/security receipts deals. 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 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.



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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. Mr. Manish Lalwani is a Chartered Accountant and holds master's degree of Commerce. 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 experienced professionals. OARPL's board comprises of experienced and professionals as independent directors which includes Mr. DwarkoGhanomal 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 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 ARCs.), Mr Srenik Sett and Mr N. S. Venkatesh (Former whole time Director of Lakshmi Villas Bank).



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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.

Overall improvement in the performance of OARPL:

The Company started its operation in December 2015 with acquisition of Rs. 5 Crs of assets from South Indian Bank. 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. 512.07 Crs as on March 31, 2020. Further, the Company reported an investment in financial assets of Rs. 641.98Crs as on September 30, 2020 on a provisional basis. The outstanding AUM (including security receipts issued) was at Rs.1437.27 Crs as on March 31, 2020 and Rs. 2023.16 Crs as on September 30, 2020. The total operating income of the Company has improved to Rs. 52.27Crs in FY20 from Rs. 23.67Crs in FY19 (FY18: Rs. 3.69 Crs) on account of growth in the business. The capital adequacy ratio has improved to 21.21% in FY20 from 16.9% in FY19.

Key Rating Weaknesses

Concentrated portfolio:

The company has ~49.28% of its investment portfolio pertaining to Assets related to Iron & Steel and Real Estate segments as on Sept 2020 which indicates portfolio concentration



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risk. However, the promoter's exposure to industry also gives distinct advantage in recovery. Furthermore, these segments have seen recovery through IBC process or otherwise during last couple of years. Also, OARPL has resolved cases in the said sectors.

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. Despite 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.

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.



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Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Non-Banking Finance Companies

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The net worth of OARPL has increased during FY20 to Rs. 143.12 Crs. Further, OARPL has plans to infuse more funds into the business by the way of equity and USLs in FY21. The proposed credit lines will also be creating liquidity of ~Rs. 150.00Crs. The cash and equivalents stood at Rs. 40.98 Crs in FY20.

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)

For the year ended* / As On	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	23.67	52.27
Net Interest Income	(4.77)	(26.85)
PAT	5.31	7.07
Total Debt	511.70	403.76
Tangible Net Worth	106.18	143.12
Ratios		
PAT Margin (%)	22.45	13.53
Overall Gearing Ratio (x)	4.82	2.82
Total CAR (%)	16.90%	21.21%

*Classification as per Infomerics' standards

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



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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 2020-21 (June 16 th , 2020)	Date(s)& Rating(s) assigned in 2019-20	Date(s)& Rating(s) assigned in 2018-19
1.	Proposed Fund Based Working Capital Facilities – Cash Credit	Long Term	50.00(Reduced from 150.00)	IVR A-/Stable Outlook	IVR BBB+/Positive Outlook	--	--
2.	Proposed NCDs	Long Term	100.00 (Reclassified from Proposed Cash Credit)	IVR A-/Stable 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.

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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.



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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	--	--	--	50.00(Reduced from 150.00)	IVR A-/Stable Outlook
Proposed NCDs	--	--	--	100.00 (Reclassified from Proposed Cash Credit)	IVR A-/Stable Outlook

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-OARPL-03-12-20.pdf>