



Press Release

Omkara Assets Reconstruction Private Limited (OARPL)

January 04, 2022

Ratings

Instrument/ Facility	Amount (INR. Crore)	Ratings	Rating Action
Proposed Fund Based Working Capital Facilities – Cash Credit	150.00	IVR BBB+/ Credit Watch with Negative Implications (IVR Triple B Plus under Credit Watch with Negative Implications)	Rating Revised and placed on Credit Watch with Negative Implications
Total	150.00		

Details of Facilities are in Annexure 1

Rating Action

In light of the recent media news, wherein Income Tax Department carried out search and seizure operations on four Asset Reconstruction Companies (ARCs) which included Omkara Assets Reconstruction Private Limited. Infomerics Ratings have taken an assessment of the likely impact of the same on the Company's business operations and financial risk profile going forward and accordingly downgraded the ratings and put it under Credit Watch with Negative Implications.

Infomerics shall continue to closely monitor the status update of the Income Tax Authorities' findings and any adverse impact of the same on the Company's operational performance and liquidity position.

Detailed Rationale

The Rating continues to derive strength from an experienced & qualified management team, relatively higher haircut of the acquired portfolio with a healthy mix of cash/security receipts deals, and improvement in the overall performance of OARPL during FY21 & H1FY22. 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 of cash flows.

Key Rating Sensitivities



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Upward Factor

- Substantial increase in AUM, followed by an increase in the scale of operations coupled with stable revenue stream from asset management fees and timely recoveries and redemptions of acquired assets will lead to a rating upgrade.

Downward Factor

- Any unfavorable findings by the Income Tax Authorities thereby impacting the operational performance and liquidity profile of OARPL will lead to a rating downgrade.
- Lower than expected acquisition of new assets, delay in resolution of assets purchased in the past or more than expected rise in gearing and/or deterioration in capital adequacy 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 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. Dwarko Ghanomal Rajpal (Former General Manager – 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 Sathiyannarayanan 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).

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.



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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, 2021. 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 three years ended FY21. The investment comprising of financial assets acquired on its books scaled up and stood at Rs. 848.53 Crs as on March 31, 2021. Further, the Company reported an investment in financial assets of Rs. 945.16 Crs as on September 30, 2021 on a provisional basis. The overall AUM (including security receipts issued) was at Rs. 3420.17 Crs as on March 31, 2021 (FY20: Rs. 1437.27 Crs) and increased to Rs. 4591.09 Crs as on September 30, 2021. The total operating income of the Company has increased to Rs. 78.91 Crs in FY21 from Rs. 52.27 Crs in FY20 (FY19: Rs. 23.67 Crs) and further the Company has reported a total operating income of Rs. 88.02 Crs in H1FY22 (Provisional) on account of growth in the business. The capital adequacy ratio has also improved to 23.86% in FY21 from 21.21% in FY20 and further to 28.58% as on Sep 30, 2021 on provisional basis.

Key Rating Weaknesses

Concentrated portfolio:

Although improving, the Company has ~40% of its investment portfolio pertaining to Assets related to Iron & Steel and Real Estate segments as on Sept 2021 (Sept 2020: ~49.28%) which indicates portfolio concentration risk. However, the Company has improved diversification in its portfolio with acquiring considerable portion of stressed retail financial accounts such as home loans, vehicle loans, educational loans etc. Also, concentrated segments have seen gradual recovery through IBC process or otherwise during last couple of years. Further, the promoter's experience in the stressed assets resolution sector gives distinct advantage in recovery.

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 very likely to improve. Further, OARPL has a track record in terms of recoveries in past 3 fiscals and has already recovered to the tune of approx. 30% of the total assets acquired.



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Intense competition in the Asset Reconstruction sector:

There are ~29 registered ARCs in India, which manage more than Rs. 1 lakh Crs of AUM. The competition in the stressed asset market is on the rise with an increase in the number of players. Also, the change in the model of ARCs to more cash-based buying as against largely a security receipts-based model adopted earlier may lead to increase competition amongst the 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 of 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: Standalone

Applicable Criteria:

Rating Methodology for Non-Banking Finance Companies
Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

The liquidity position of OARPL is adequate marked by a healthy tangible net worth of Rs. 209.98 Crs as on March 31, 2021. The overall CAR stood at 23.86% in FY21. Further, OARPL has plans to infuse additional funds into the business in FY22. The proposed credit lines will also be creating liquidity of ~Rs 150 Crs. The cash and equivalents stood at Rs. 1.32 Crs in FY21.

About the Company

Omkara Assets Reconstruction Private Limited 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)



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For the year ended* / As On	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	52.27	78.91
PAT	7.07	17.23
Total Debt	403.76	612.41
Tangible Net Worth	143.12	209.98
Ratios		
PAT Margin (%)	13.53	21.84
Overall Gearing Ratio (x)	2.82	2.92
Total CAR (%)	21.21%	23.86%

*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 2021-22)			Rating History for the past 3 years				
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (December 01, 2021)	Date(s) & Rating(s) assigned in 2020-21		Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
						Dec 03, 2020	Jun 16, 2020		
1	Proposed Fund Based Working Capital Facilities – Cash Credit	Long Term	150.00	IVR BBB+/ Credit Watch with Negative Implications	IVR A-/Stable Outlook	IVR A-/Stable Outlook	IVR BBB+/ Positive Outlook	--	--
2	Proposed NCDs	Long Term	0.00	--	Withdrawn	IVR A-/Stable Outlook	--	--	--

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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	--	--	--	150.00	IVR BBB+/ Credit Watch with Negative Implications

Annexure 2: Facility wise lender details: Not Applicable

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr. No.	Instrument	Complexity Indicator
1	Cash Credit	Simple

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.