



## Press Release

### Arka Fincap Limited (AFL)

December 29, 2021

| Sl. No. | Instrument/Facility  | Amount (Rs. Crore)                  | Ratings Assigned   | Rating Action |
|---------|--|-------------------------------------|--|---------------|
| 1.      | Long Term Fund Based Facility – Non Convertible Debentures (NCDs)          | 43.00                               | IVR AA-/ Stable Outlook [IVR Double A Minus with Stable Outlook] | Assigned      |
| 3.      | Proposed Long Term Fund Based Facility – Non Convertible Debentures (NCDs) | 27.00 (Reduced from INR70.00 Crore) | IVR AA-/ Stable Outlook [IVR Double A Minus with Stable Outlook] | Reaffirmed    |
|         | <b>Total</b>   | <b>70.00</b>                        |  |               |

#### **Ratings**

#### **Details of Facilities are in Annexure I**

#### **Detailed Rationale**

The affirmation of rating assigned to the NCDs of Arka Fincap Limited (AFL) takes into account strong support from the parent, experienced management team, healthy capital adequacy and comfortable leveraging position followed by optimum collection efficiency and improving operating income, diversified product portfolio and borrowing profile. However, the rating is constrained by the limited track record of operations, geographical concentration of the portfolio albeit improving and competitive nature of industry.

#### **Key Rating Sensitivities**

##### **Upward Factors**

- Significant and sustainable improvement in the scale of operations along with containing the delinquencies level and the profitability.
- Substantial improvement in the credit risk profile of the parent

##### **Downward Factors**

- Significant deterioration in Asset quality leading to decline in profitability.
- Any major change in the shareholding patter and/or support from parent.
- Any decline in the credit risk profile of parent.



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### **Key Rating Drivers with detailed description**

#### ***Key Rating Strengths***

#### **Strong support from the parent along with experienced management team:**

The Company is promoted by Kirloskar Oil Engines Limited, a flagship company of the Kirloskar group. KOEL has a high strategic importance of AFL (being wholly owned subsidiary of KOEL) and has strong moral obligations towards it.

AFL is managed by a well-qualified and experienced team of management led by Mr. Vimal Bhandari (Executive Vice Chairman & CEO). He possesses over 30 years of commendable experience as a finance professional.

#### **Healthy capital adequacy and leverage position:**

The overall Capital Adequacy Ratio of the Company stood at 57.85% as on March 31, 2021 and at 39.25% as on September 30, 2021, comfortably above the regulatory requirement of 15% giving the company sufficient headroom to continue its growth path and expand its portfolio further. The overall gearing of the company remained comfortable at 0.99x as on in FY21.

#### **Optimum collection efficiency and improving operating income:**

AFL collection efficiency has on an average being more than 100% with nil delinquencies and nil NPA position as on September 30, 2021. Total operating income got increased to INR102.93 Crore in FY21 from INR48.43 Crore as in FY20 (H1FY22: INR83.96 Crore) backed with increasing interest income from own portfolio along with improved client base and asset profile. Growth rate of ~113% on y-o-y basis is reported in the overall operating income along with the increase in profitability (PAT) from INR6.09 Crore in FY20 to INR16.88 Crore in FY21 (H1FY22: INR15.24 Crore)

#### **Diversified product portfolio and borrowing profile:**

The overall lending portfolio of the company is diversified which includes all types of corporate lending, real estate and allied financing, urban infra financing along with SME/MSME lending. Along with the diversity in loan book there has been diversification in the borrowers profile in last one year which is not restricted to bank loan and has extended it



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arms towards capital market instruments such as bonds, Commercial papers, Bank loan (from PSU, Private sector, other NBFCs), NCDs.

### **Key Rating Weaknesses**

#### **Limited track record of operations:**

Company has started its operation in April 2019 with lending to Mid Corporate and Real Estate segment. It also intends to expand its footprints to MSME / Retail segment with an aid to technology enabled platform to assist in reduction of TAT and better customer service experience. Over a period of next 3 – 4 years, Company plans to build its loan book with a healthy mix of Retail / MSME, Mid Corporate segment and Real Estate segment.

#### **Geographical concentration of the portfolio albeit improving:**

At present, AFL manages its portfolio in seven different states, however, the Company's geographical concentration risk remains high with ~47% of portfolio concentrated to the states of Karnataka and Maharashtra however in last one year the company has diversified its presence in the state of Chennai, Vijayawada and Ahmedabad.

#### **Competitive nature of industry:**

AFL is exposed to stiff competition from other NBFCs and banks operating in the similar segment. Better capitalised and more conservatively run finance companies are likely to swallow up an increasing number of smaller rivals. The current uncertainty in the market will lead NBFCs with financially strong backers stand out.

#### **Analytical Approach:** Standalone

#### **Applicable Criteria**

- Rating Methodology for Financial Institutions/NBFCs
- Financial Ratios & Interpretation (Financial Sector)
- **Parent & Group Support:** - For arriving at the rating, INFOMERICS has considered the support from parent company - Kirloskar Oil Engines Limited (KOEL), factoring the strategic importance of AFL (being wholly owned subsidiary of KOEL) and strong moral obligations towards ALF.



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### **Liquidity – Adequate**

Liquidity is marked adequate by the balanced ALM profile for the short to medium term with sufficient cushion of inflows as against its repayment obligations largely because of its short term lending type of loans as against term debt availed. Apart from it, the Company maintains cash and cash equivalents of about INR226.08 Crore as on March 31, 2021.

### **About the Company-**

AFL is a systematically important, non-deposit taking NBFC. It is a wholly owned subsidiary of Kirloskar Oil and Engines Limited (KOEL), which is a flagship company of Kirloskar group. As a new NBFC, AFL aims to build a loan book of SME/MSME, corporate and Real Estate segment. The company was originally incorporated as Kirloskar Capital Limited and the name got changed during FY20.

### **About Kirloskar Oil Engines Limited:**

Incorporated in 1946, KOEL is the flagship company of the Kirloskar group. Listed with NSE & BSE, the company has a market capitalization of around INR 1660 crores. KOEL is an acknowledged leader in the manufacturing of diesel engines, agricultural pump sets and generating sets. It has a sizable presence in international markets as well. As on March 31, 2021 KOEL reported a total operating income of INR3322.59 Crore (H1FY22: INR1008.80 Crore) and PAT of INR197.40 Crore (H1FY22: INR41.68 Crore) on consolidated basis.

In FY22, the Kirloskar Group has formed a new company known as Arka Financial Holdings Private Limited which is more like holding company or CIC (Core Investment Company) of KOEL for carrying out all the financial business of the Kirloskar Group.

Under this company all the financial services of the group will be housed. As seen 100% stake in AFL is of KOEL with the formation of Arka Financial Holdings Private Limited, in turn will hold 100% stake in Arka Fincap Limited.



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### Financials: Standalone

(Rs. crore)

| For the year ended/ As On* | 31-03-2020 | 31-03-2021 |
|----------------------------|------------|------------|
|                            | (Audited)  | (Audited)  |
| Total Operating Income     | 48.43      | 102.93     |
| Interest                   | 2.66       | 37.69      |
| PAT                        | 6.09       | 16.88      |
| Total Debt                 | 75.00      | 665.69     |
| Tangible Net worth         | 527.02     | 669.63     |
| Total Loan Assets          | 457.76     | 1124.57    |
| PAT Margin %               | 12.58      | 16.40      |
| Overall Gearing Ratio (x)  | 0.14       | 0.99       |
| Gross NPA (%)              | Nil        | Nil        |
| Net NPA (%)                | Nil        | Nil        |
| CAR (%)                    | 108.55%    | 57.85%     |

\* 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 outstanding (Rs. crore) | Rating                  | Date(s) & Rating(s) assigned in 2020-21 (December 30, 2020) | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 |
| 1.      | Long Term Fund Based Facility – Non Convertible Debentures (NCDs)          | Long Term                     | 43.00                          | IVR AA-/ Stable Outlook | --  | --                                      | --                                      |
| 2.      | Proposed Long Term Fund Based Facility – Non Convertible Debentures (NCDs) | Long Term                     | 27.00                          | IVR AA-/ Stable Outlook | IVR AA-/ 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](http://www.infomerics.com).



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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 I: Details of Facilities**

| Name of Facility   | Date of Issuance | Coupon Rate/ IRR | Maturity Date       | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------------|------------------------------|--------------------------|
| Long Term Fund Based Facility – Non Convertible Debentures (NCDs)          | -                | -                | Up to June 30, 2022 | 43.00                        | IVR AA-/ Stable Outlook  |
| Proposed Long Term Fund Based Facility – Non Convertible Debentures (NCDs) | -                | -                | -                   | 27.00                        | IVR AA-/ Stable Outlook  |

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.****Annexure 3: Facility wise lender details: Not Applicable****Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:**





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### Details of Issued NCDs

|                                       |  |
|---------------------------------------|--|
| <b>Name of Trustee</b>                | <b>Catalyst Trusteeship Limited</b>  |
| <b>Instrument Description</b>         | 8.50% Secured Unlisted Rated Taxable Redeemable Non Convertible Debentures. Letter Of Allotment. Series Vi. Date Of Maturity 30/06/2022. |
| <b>Issue Size</b>                     | INR43.00 Crore   |
| <b>ISIN No</b>                        | INE03W107066   |
| <b>Date of Allotment</b>              | 31-Dec-2020  |
| <b>Financial Covenants</b>            |  |
| <b>Redemption Date</b>                | 30-Jun-2022  |
| <b>Coupon Rate</b>                    | 8.50%  |
| <b>Coupon Repayment timeline</b>      | Annually and on Maturity:: December 31, 2021 and June 30, 2022   |
| <b>Non Financial Covenants</b>        |  |
| <b>Objective/Purpose of the Issue</b> | Onward lending   |

### Annexure 5: Complexity level of the rated Instruments/Facilities

| <b>Sr No.</b> | <b>Instrument</b>          | <b>Complexity Indicator</b> |
|---------------|----------------------------|-----------------------------|
| 1             | Non Convertible Debentures | Simple                      |