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Omkara Assets Reconstruction Private Limited (OARPL)

September 01, 2023

Ratings:

Instrument / Facility	Amount (INR Crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term-Fund Based-Bank Facilities	60.00	IVR A-/ Rating Watch with Negative Implications [IVR A Minus placed on Rating Watch with Negative Implications]	Assigned	Simple
Total	60.00	Rupees Sixty Crore		

Details of Facilities are in Annexure 1

Detailed Rationale:

The Rating assigned to the bank facilities of Omkara Assets Reconstruction Private Limited has taken into consideration experienced & qualified management team, Covered under SARFAESI Act, with a focused approach towards NPA resolution followed by competitive pricing of the acquired portfolio with a moderate haircut of the acquired portfolio and healthy mix of cash/security receipts deals, and overall growth in operational performance. However, the ratings are constrained by poor track record of resolution of stressed assets in India, intense competition in the Asset Reconstruction sector along with 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 rating has been placed under “Rating under watch with Negative Implications” at the back of search and seizure operations carried out by Income Tax Department and clarification sought by RBI on Omkara Assets Reconstruction Private Limited and disputed income tax demand raised vide order passed in April 2021 by income tax department.

Key Rating Sensitivities:

Upward Factors:

- Substantial growth in AUM, along with significant recoveries and redemptions



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resulting in an increase in the scale of operations coupled with stable revenue stream from asset management fees.

Downward Factors:

- Any adverse remark by Income tax authorities relating search or seizure and/or any action by RBI which can impact business operation
- Crystallization of disputed income tax demand raised vide order passed in April 2021 by income tax department.
- Lower than expected acquisition of new assets, delay in resolutions of assets purchased in the past or more than expected rise in gearing and/or deterioration in capital adequacy.

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.

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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Moderate 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 50% for cumulative assets acquired as on March 31, 2023. The healthy mix of cash/security receipts with respect to acquisition of financial assets lead to steady cash flows from management fees as well.

Growth in operational performance

The Company has started its operation in December 2015 with acquisition of Rs. 5 crore of assets from South Indian Bank. The growth was substantial in the last four years ended FY23(Prov). The investment comprising of financial assets acquired on its books scaled up and stood at Rs. 1,134.97 crore as on March 31, 2023. The overall AUM (including security receipts issued) was at Rs.5002.54 crore in FY23(Prov) as against Rs. 6154.31 crore in FY22 and Rs. 3418.34 crore in FY21 respectively. The total income of the Company stood at Rs. 205.08 crore in FY23(Prov) as against Rs. 221.68 crore in FY22 however remained stable considering the nature of business. Further, company's total income stood at Rs.85.37 crore in Q1FY24, PAT stood at Rs.49.07 crore. The capital adequacy ratio has improved to 35.03% in FY23(Prov) from 28.74% in FY22.

Key Rating Weaknesses:

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. 38% of the total assets acquired.

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, due to the change in the model of ARCs to more cash-based buying as against



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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.

Analytical Approach: Standalone

Applicable Criteria:

[Policy for Placing Ratings on Rating Watch](#)

Liquidity-Adequate

The company is adequately capitalized with a CAR (%) of 35.03% as on March 31, 2023(prov.), improved as against 28.74% as on 31 March 2022, and Net worth of Rs.422.47 crore as on March 31, 2023(Prov.) and Rs 359.26 Crores as on March 31, 2022 respectively. Also, the company has cash and bank balances of Rs. 8.36 crore viz-a-viz Rs 1.80 Crores as on March 31, 2023 (Prov.) and March 31, 2022.

About the Company:

Omkara Assets Reconstruction Private Limited (OARPL) was incorporated in March 2014 by Mr. A. Sakthivel and Mr. Manish Lalwani. The company subsequently received registration to



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commence Asset Reconstruction business vide RBI Registration certificate dated October 5, 2015.

Financials: Standalone

For the year ended / INR. Crore*	31-03-2021	31-03-2022	31-03-2023
	Audited	Audited	Provisional
Total Income	79.39	221.68	205.08
PAT	17.23	99.93	77.43
Tangible Network	209.98	359.26	422.47
Total Debt	612.41	709.15	688.38
AUM	3418.34	6154.31	5002.54
ROTA%	2.51%	10.56%	7.11%
Total CAR(%)	23.86%	28.74%	35.03%
Overall Gearing Ratio (x)	2.92	1.97	1.63
Interest coverage(x)	1.57	3.98	2.53

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term Bank Facility - Term Loan	Long Term	60.00	IVR A-/ Rating Watch with Negative implication	-	-	-

Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities:



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2028	60.00	IVR A-/Rating Watch with Negative Implication

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-oarpl-sep23.pdf>

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

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