



## Press Release

### Arka Fincap Limited (AFL)

December 30, 2020

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Proposed Non-Convertible Debentures	70.00	IVR AA-/ Stable Outlook [IVR Double A Minus with Stable Outlook]
	<b>Total</b>	<b>70.00</b>	

Details of Facilities are in Annexure 1. Indicative terms for the proposed instrument are in Annexure 2.

#### Detailed Rationale

The rating derives comfort from strong support from the parent, experienced management team, healthy capital adequacy and comfortable leveraging position. However, the rating is constrained by the limited track record of operations, geographical concentration of the portfolio and competitive nature of industry.

#### Key Rating Sensitivities

##### **Upward Factor**

- 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 Factor**

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



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### List of 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 (KOEL), a flagship company of the Kirloskar group. AFL is of high strategic importance to KOEL (being wholly owned subsidiary of KOEL) and has strong moral obligations towards it. The parent has infused equity capital to the tune of ~Rs. 527 Crs till March 2020. Further, during H1FY21, more ~Rs. 45 Crs has been infused.

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 108.55% as on March 31, 2020 being first year of operations and at 65.20% as on September 30, 2020, 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 healthy at 0.14x as on March 31, 2020 and 0.9x as on September 30, 2020.

#### **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. Going forward, the 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:***

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.



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

AFL is exposed to stiff competition from other NBFCs and banks operating in the similar segment. 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.*

### **Liquidity: Adequate**

The Company has an adequate liquidity position with cash and cash equivalents of Rs. 247.17 Crs as on September 30, 2020. The overall gearing as on September 30, 2020 stood at ~0.9x allowing moderate headroom for further leverage.

### **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.



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KOEL reported a total operating income and PAT of Rs. 3379.45 Crs Rs. 187.89 Crs respectively in FY20 and a total operating income and PAT of Rs. 1250.28 Crs Rs. 52.78 Crs respectively in H1FY21 on consolidated basis.

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	0.34	50.08
Finance Cost	0.00	2.04
PAT	(7.46)	11.88
Total Debt	0.00	75.00
Tangible Net Worth	19.52	528.64
Total Loan Assets	0.00	447.56
<b>Ratios</b>		
PAT Margin (%)	NM	23.73
Overall Gearing Ratio (x)	0.00	0.14
Total CAR (%)	220.00%	108.55%
Gross NPA (%)	0.00	0.00
Net NPA (%)	0.00	0.00

NM: Not meaningful

\*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 Non-Convertible Debentures	Long Term	70.00	IVR AA-/ Stable Outlook [IVR Double A Minus with Stable Outlook]	--	--	--



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**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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**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 Non-Convertible Debentures	--	--	--	70.00	IVR AA-/ Stable Outlook [IVR Double A Minus with Stable Outlook]

### Annexure 2: Indicative terms for the proposed instrument

Particulars	Instrument terms
Indicative Coupon Rate	8.5%
Coupon Frequency	Annual & on Redemption
Proposed Tenor	18 Months from the Deemed Date of Allotment
Purpose	General corporate purposes
Security	The stipulated security cover will be 1.1x (Pari-passu on receivables and Cash & Cash equivalent).