

Press Release
ARKA FINCAP LIMITED
August 21, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Shc R
Non Convertible Debentures (NCD)	150.00	ACUITE AA Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	150.00	-	-

Rating Rationale

Acuite has assigned the long term rating of 'ACUITE AA' (Read as ACUITE double A) on the Rs 150.00 Cr. Non-convertible Debentures of Arka Fincap Limited. The Outlook is 'Stable'.

Rationale for Rating

The rating is driven by the parentage of Kirloskar Oil Engines Ltd (KOEL) which is one of flagship companies of the Kirloskar Group. This brings the financial flexibility to Arka Fincap Ltd. KOEL have already infused around Rs 1000 crores as on March 31,2024 and have the ability to infuse further to drive the growth for Arka Fincap Ltd. The rating also factors the steady scale up in operations of Arka Fincap Limited, as seen in the growth in the AUM.

About the company

Arka Fincap Limited

Mumbai based, Arka Fincap Limited was incorporated in 2018. Mr. Mahesh Ramchand Chhabria, Mr. Vijay Chugh, Mr. Sivanandhan Dhanushkodi, Mr. Yogesh Kapur, Mr. Vimal Bhandari, Mrs. Gauri Atul Kirloskar, Mr. Gurumurthy Ramanathan are directors of the company. The company is engaged in lending activity. The company is registered with Reserve Bank of India as a Non banking financial Company. The company is a wholly owned subsidiary of Arka Financial Holdings Private Limited which in turn wholly owned by Kirloskar Oil Engine Limited.

About the Group

About the Group Companies:

Arka Financial Holdings Private Limited

Mumbai based, Arka Financial Holdings Private Limited was incorporated in 2021. It operates as an unregistered core investment company. The company is a wholly owned subsidiary of Kirloskar Oil Engines Limited. Arka Financial Holdings Private Limited is a holding company of Arka Fincap Limited. Mr. Mahesh Ramchand Chhabria, Mr. Vimal Bhandari, Mrs. Gauri Atul Kirloskar, Mr. Sivanandhan Dhanushkodi, Mr. Rahul Narain Bhagat, Mr. Yogesh Kapur are directors of the company.

Kirloskar Oil Engines Limited

Kirloskar Oil Engines Limited is an ultimate holding company of Arka Fincap Limited.

Pune based, Kirloskar Oil Engines Limited was incorporated in 2009. It is engaged in the business of manufacturing of engines, generating sets, pump sets and power tillers and spares thereof. The Company operates through three segments: Business to Business (B2B), Business to Customer (B2C) and Financial Services. Mr. Vinesh Kumar Jairath, Mr. Satish Jamdar, Mr. Kandathil Mathew Abraham, Mrs. Shalini Sarin, Mrs. Purvi Sheth, Mr. Rahul Chandrakant Kirloskar, Mr. Mahesh Ramchand Chhabria, Mrs. Gauri Atul Kirloskar, Mr. Atul Chandrakant

Kirloskar, Mr. Yogesh Kapur, Mr. Arvind Hari Goel are directors of the company.

Unsupported Rating

Not Applicable

Analytical Approach

For arriving at the rating, Acuite has assessed the standalone credit risk profile of Arka, and factored in the support expected from ultimate parent, KOEL, given the strategic importance of Arka to the former, 100% ultimate shareholding.

Key Rating Drivers

Strength

Strong parent support from Kirloskar Oil Engine Limited (KOEL)

KOEL is the ultimate holding company of Arka Fincap Limited through Arka Financial Holdings Ltd. This brings the financial flexibility to Arka Fincap Ltd and its promoters have already infused around Rs 1000 crore and it is expected that they can infuse further to drive the growth for Arka Fincap Ltd. The revenues of KOEL have increased to Rs. 5893.65 Cr. in FY24 as against Rs. 5016.68 Cr. in FY23. The EBITDA margins is on an improving trend. EBITDA margin for FY24 improved to 17.77% as against 14.65% in FY23. The AUM for Arka Fincap Limited has increased from Rs 3961.14 Cr. in FY23 to Rs 5210.41 Cr. in FY 24.

Steady growth in AUM while maintaining asset quality

The AUM for Arka Fincap Limited has increased from Rs 3961.14 Cr. in FY23 to Rs 5210.41 Cr. in FY 24 indicating steady growth in the loan portfolio. The Asset Quality of Arka Fincap Limited as indicated by the GNPA is at 0.23% and the NNPA is at 0.06% as on March 31, 2024. The on time portfolio of Arka Fincap Limited is seen at 98.79% and the overall collection efficiency is seen at 100% as on March 31, 2024.

Weakness

Limited track record

Arka Fincap Limited has recently started operations in 2019 and the seasoning on the loan portfolio is yet to be seen. The assets under management (AUM is Rs 5211.24 Cr. as on March 31, 2024). The SME/MSME lending comprises around 42.36% of the AUM, followed by RE and Urban Infra lending at 25.52%, corporate lending comprises 24.31% of the total AUM. Going forward it would be essential to monitor the operations of Arka Fincap Limited.

Rating Sensitivity

- Continued financial and strategic support from KOEL
- Movement in Asset Quality
- Change in capital structure
- Movement in earnings profile
- Changes in regulatory environment

Liquidity Position

Adequate

The company has an adequate liquidity position with the cash and cash equivalents of Rs 392.53 Cr. as on March 31, 2024. The liquidity profile also factors in the support from the parent company.

Outlook: Stable

Acuité believes Arka Fincap Limited will maintain a 'Stable' outlook given its support from the parent company, experienced management team and comfortable capitalization. The outlook may be revised to 'Positive' if there is significant scale up of the operations while improving profitability and asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the company faces asset quality or liquidity related challenges.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	5287.09	4325.17
Total Income*	Rs. Cr.	255.81	176.71
PAT	Rs. Cr.	69.23	61.36
Net Worth	Rs. Cr.	1176.68	1048.53
Return on Average Assets (RoAA)	(%)	1.44	1.77
Return on Average Net Worth (RoNW)	(%)	6.22	6.51
Debt/Equity	Times	3.42	3.06
Gross NPA	(%)	0.23	0.04
Net NPA	(%)	0.06	0.00

**Total income equals to Net Interest Income plus other income.*

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	150.00	ACUITE AA Stable Assigned

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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