

Press Release
ARKA FINCAP LIMITED
February 14, 2025
Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short T
Non Convertible Debentures (NCD)	385.00	ACUITE AA Stable Assigned	-
Non Convertible Debentures (NCD)	225.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	610.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE AA(Read as ACUITE double A)**' on the Rs 225.00 Cr. Non-convertible Debentures of Arka Fincap Limited. The Outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE AA(Read as ACUITE double A)**' on the Rs 385.00 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 the flagship companies of the Kirloskar Group. This brings financial flexibility to Arka Fincap Limited. KOEL has already infused around Rs 1000 crores as on March 31, 2024 and has the ability to infuse further to drive the growth for Arka Fincap Limited. 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, Mr Nasser Munjee and Mr Hoshang Sinor are directors of the company. The Managing Director of Arka Fincap Limited is Mr Samrat Gupta. 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 benefit derived from ownership from the ultimate parent, KOEL, given the strategic importance of Arka Fincap Limited to the former, 100% ultimate shareholding.

Key Rating Drivers

Strength

Strong parentage of 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 Limited 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 Limited. 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 AUM of the company stands at Rs 6739.59Cr for 9MFY2025. 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. For the period 9MFY2025, GNPA and NNPA stand at 0.42% and 0.17% respectively, the on time portfolio stands at 97.28% and overall collection efficiency stands at 98.03% for the same period.

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 asset under management (AUM is Rs 5210.41 Cr. in FY24). 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. For 9MFY2025, the SME & Retail lending stands at 46.31%, followed by RE and Urban Infra lending at 21.81 %, corporate lending comprises 18.29% of the total AUM (Rs 6739.59Cr). Going forward it would be essential to monitor the operations of Arka Fincap Limited.

ESG Factors Relevant for Rating

Arka Fincap Limited, registered with Reserve Bank of India as a Non-banking financial Company, is a wholly owned subsidiary of Arka Financial Holdings Private Limited. The company is engaged in providing structured term financing solutions to corporates, real estate and urban infra financing, loans to micro, small and medium enterprise ("MSME") and personal finance loans to borrowers in India. The company is committed to upholding strong corporate governance practices and drive value for its stakeholders while fostering an ethical and transparent work environment. The board of Arka Fincap Limited comprises of 10 members including executive, non-executive, and independent directors and adheres to all applicable regulations to maintain integrity, excellence and responsible growth. Further, on the social aspect, the company is dedicated to understanding the needs of its employees and lays an emphasis on the continuous skill development through training, coaching and mentorship, ensuring as well as employee engagement programs. The company also focuses on an inclusivity and diversity as a part of their culture.

Rating Sensitivity

- Continued financial and strategic benefit derived from ownership of KOEL
- Movement in Asset Quality
- Change in capital structure
- Movement in earnings profile
- Changes in regulatory environment

All Covenants

All covenants of the NCD Issue

- i) In case of delay in execution of Trust Deed, the Company will refund the subscription with agreed rate of interest or will pay penal interest of at least 2% p.a. over the coupon rate till these conditions are complied with at the option of the investor.
- ii) In case of delay in listing of securities issued on privately placement basis beyond the timelines specified

above, the issuer;

1. Will pay penal interest of 1% p.a. over the coupon rate for the period of delay to the investor (i.e. from date of allotment to the date of listing).

2. Will be permitted to utilize the issue proceeds of its subsequent two privately placed issuances of securities only after receiving final listing approval from Stock Exchanges.

iii) The Issuer shall also supply to the Debenture Trustee all the information covenants as per the requirements of the Debenture Trust Deed.

The description above is indicative and a complete list of all the covenants will be specified in the Debenture Trust Deed.

The Accelerated Redemption Option clause for redemption of the amount outstanding (principal, redemption premium (if applicable), coupon etc.) against the Debentures, can be triggered by Investor, if one or more of the following covenants are breached at any time up to the final redemption date of the Debentures: (If any covenant is breached and if Accelerated Redemption Option clause is triggered by Investor, the Issuer shall make all the outstanding payments due on the Debentures within "15" Business days from the date of exercise of Accelerated Redemption Option (by written notice or email by Investor)

The following financial covenants shall apply during the tenure of the Facility:

1. If there is a rating downgrade in the Issuer to below A-/Stable by any rating agency of any of its facilities/instruments.

2. AFL shall maintain minimum CRAR of 15% or as stipulated by RBI whichever is higher.

3. The Issuer's Bank Loans should not be categorized as restructured under any scheme by RBI during the tenor of the NCD.

4. There should be no ALM cumulative mismatch (negative) beyond limits stipulated by RBI

5. No subsidiary entity to default on any external borrowings/debt / cross default

6. Management control to be with Kirloskar Group and Promoter Equity to be maintained above 51% for at least 5yrs post issuance of this NCD.

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 benefit derived from the ownership of KOEL.

Outlook: Stable

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):

Not Applicable

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. Acuite'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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Sep 2024	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	75.00	ACUITE AA Stable (Assigned)
21 Aug 2024	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE03W107298	Non-Convertible Debentures (NCD)	27 Aug 2024	9.50	23 Aug 2034	150.00	Simple	ACUITE AA Stable Reaffirmed
Not Applicable	INE03W108031	Non-Convertible Debentures (NCD)	26 Nov 2024	9.60	24 Nov 2034	75.00	Simple	ACUITE AA Stable Reaffirmed
Not Applicable	INE03W108023	Non-Convertible Debentures (NCD)	17 Nov 2023	10.75	17 May 2029	75.00	Simple	ACUITE AA Stable Assigned
Not Applicable	INE03W108015	Non-Convertible Debentures (NCD)	25 Aug 2022	10.25	25 Feb 2028	60.00	Simple	ACUITE AA Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	250.00	Simple	ACUITE AA Stable Assigned

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About Acuité Ratings & Research

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