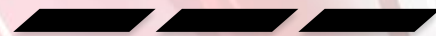
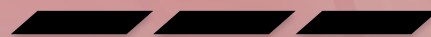


# Areion Special Situation Fund



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# Market Overview





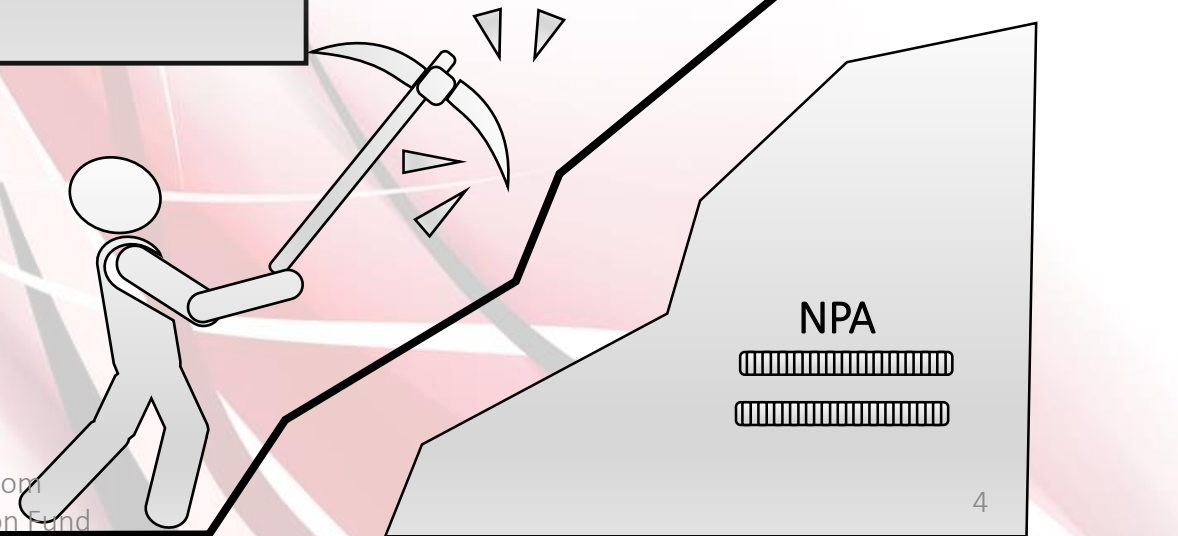
## DISTRESS

- As the economic growth stagnated, the repayment capability of these corporations decreased.
- The banks at this time took to the practice of giving fresh loans to some promoters to enable them to pay off their debt and this pushed loans as non-performing to a later date.



## DEBT

- During Mid 2000s when the economy was booming and business outlook was very positive, Large corporations were granted loans for projects
- With loans being available more easily than before, corporations grew highly leveraged, implying that most financing was through external borrowings rather than internal promoter equity.



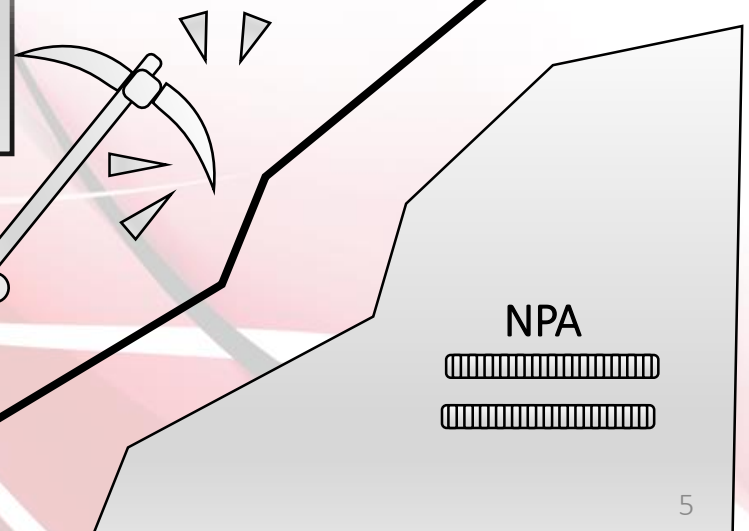


## REGULATIONS

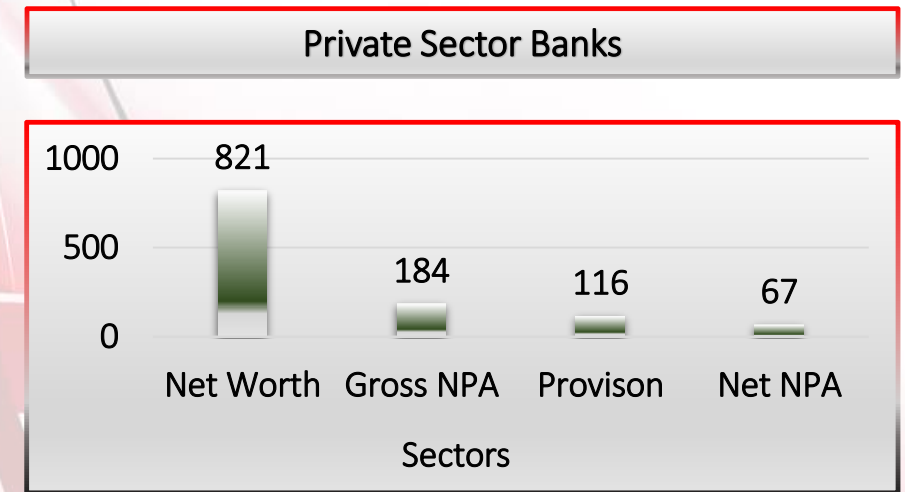
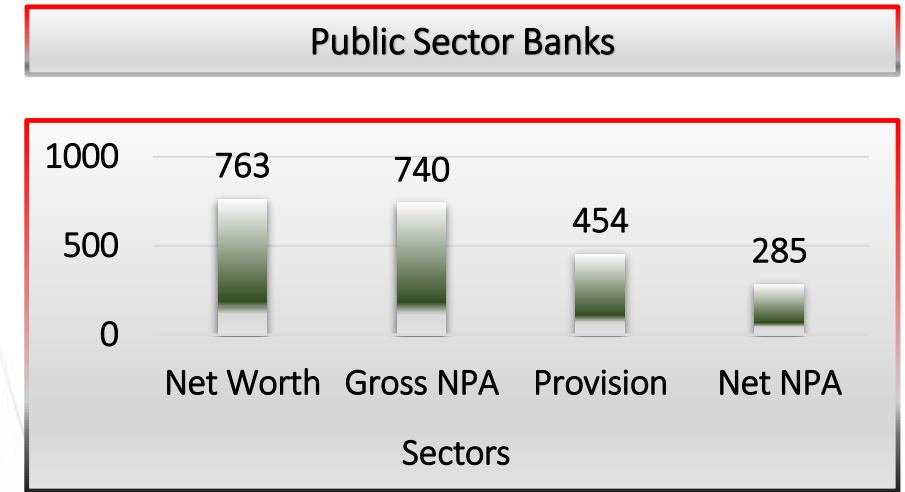
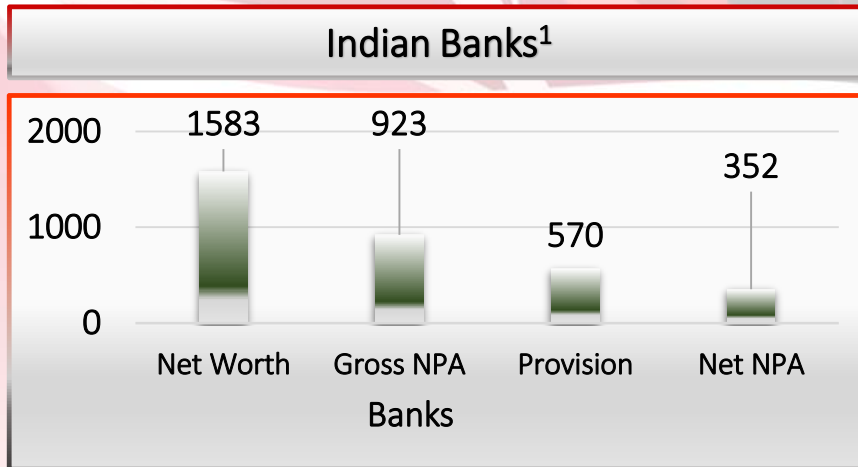
- Over the years, RBI has issued various guidelines aimed at the resolution of stressed assets of banks.
- However, currently the it is regulated under Insolvency & Bankruptcy Code, 2016, referring the account to Hon'ble National Company Law Tribunal

## AVENUE

- The objective of Category II Distress fund is to identify strategic investor to invest in potential accounts with underlying assets at reasonable valuations and potential turnaround
- The realization of such NPA accounts could be through: settlement with the promoters, turnaround of the company finances, resolution under IBC, 2016.



# Market Overview: Stressed Asset Burden in India



- Stressed Asset challenge has grown towards net worth, with a total Net NPA of INR 352K Cr.
- 80%+ of these stressed assets are concentrated with the public sector banks
- Private-sector banks outperform the state-owned ones and continue to capture an ever-greater share of the market, as the latter remain burdened by legacy and the constraints of public sector ownership.

\*Figures in INR 000' Crore as on 31<sup>st</sup> December 2019

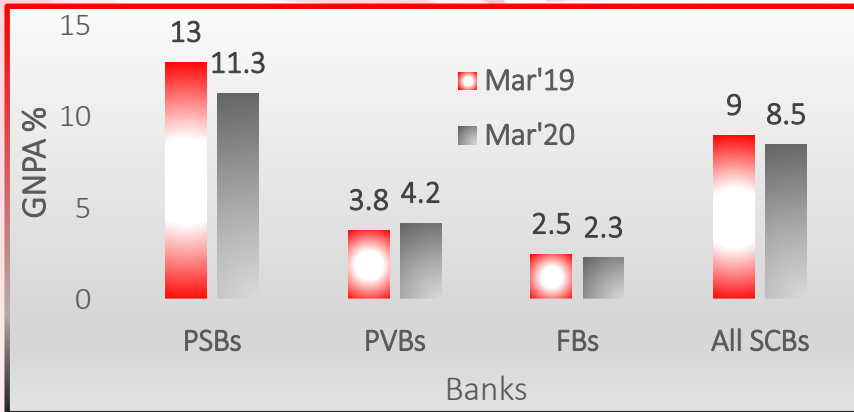
Source: Statistical Tables related to banks in India, RBI

<sup>1</sup> Excluding foreign banks

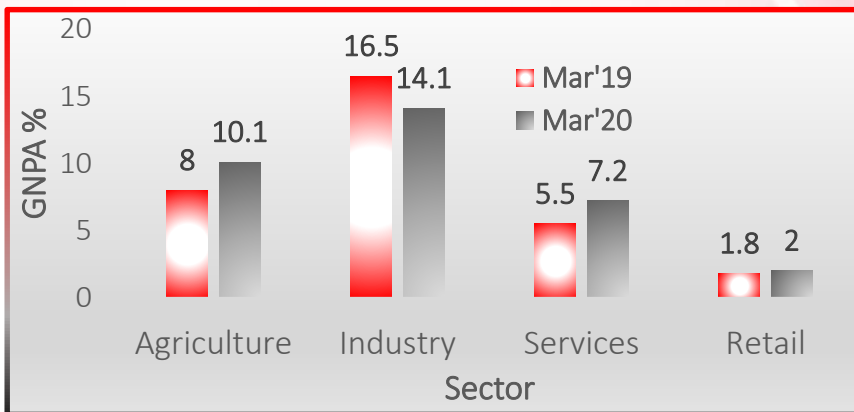


# Market Overview: Stressed Asset Burden in India

## GNPA Ratio- Banks



## GNPA Ratio- Sector Wise



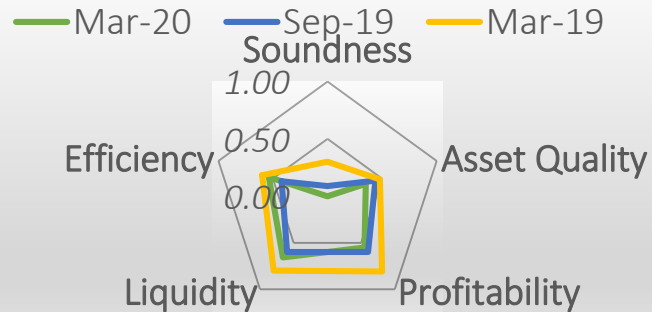
\*Figures as on 31<sup>st</sup> March 2020

Source: Financial Stability Report, June 2020 issued by RBI

- **GNPA:** Gross Non- Performing Asset Ratio is the total Non-Performing Asset (without provision) to the Loans Advanced is 8.5% as on March 2020.
- The regulatory dispensations that the pandemic has necessitated in terms of the moratorium on loan instalments and deferment of interest payments may have implications for the financial health of Scheduled Commercial Banks, going forward.
- Sectorally, the quality of bank loans to services sector worsened in March 2020. Among major sub-sectors within industry, GNPA ratios in respect of construction and gems and Jewellery sectors swelled up in March 2020

# Market Overview: Stressed Asset Burden in India

## Bank Stability Map



- The banking stability indicator shows that Scheduled Commercial Banks have recorded deterioration in soundness, liquidity and efficiency in March 2020 as compared with the September 2019 position, whereas asset quality and profitability showed marginal improvement
- A stress test conducted by the Reserve Bank of India suggests that the Covid-19 crisis could push Indian banks' gross bad loans to their highest in nearly two decades.

## Expected GNPA



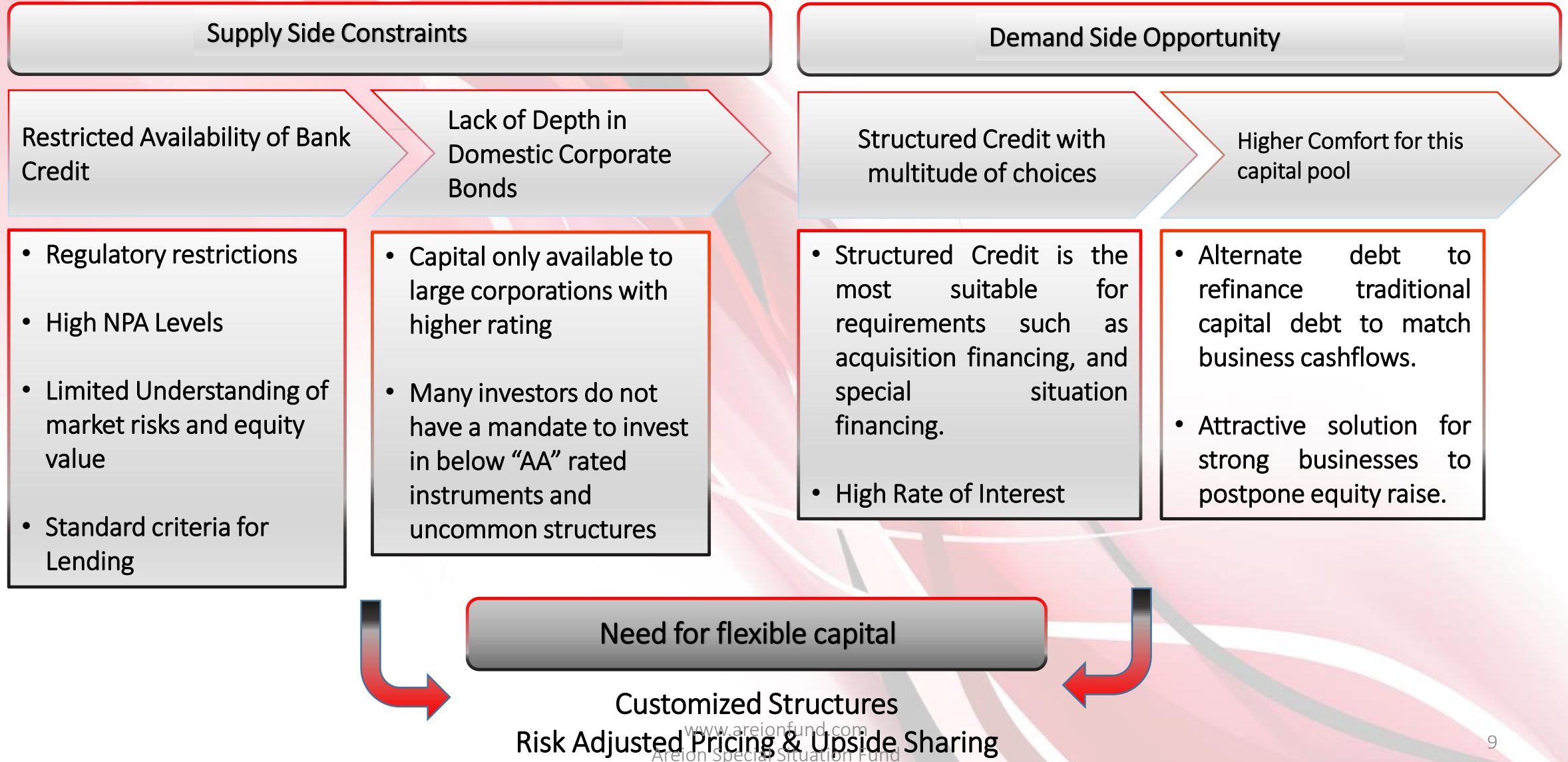
- It has been noted that macro stress tests for credit risk indicate that the GNPA ratio of all SCBs may increase from current 8.5 per cent in March 2020 to **12.5 per cent by March 2021** under the baseline scenario
- If the macroeconomic environment worsens further, the ratio may escalate to **14.7 per cent under the very severely stressed scenario.**
- The impact of moratorium is still uncertain and evolving, the exact nature of how the same will play out on the quality of banking assets this will only be ascertainable with passage of time, and outcomes from time to time.

\*Figures as on 31<sup>st</sup> March 2020

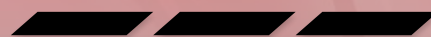
Source: Financial Stability Report, June 2020 issued by RBI



# Market Overview: Growing Credit Requirement



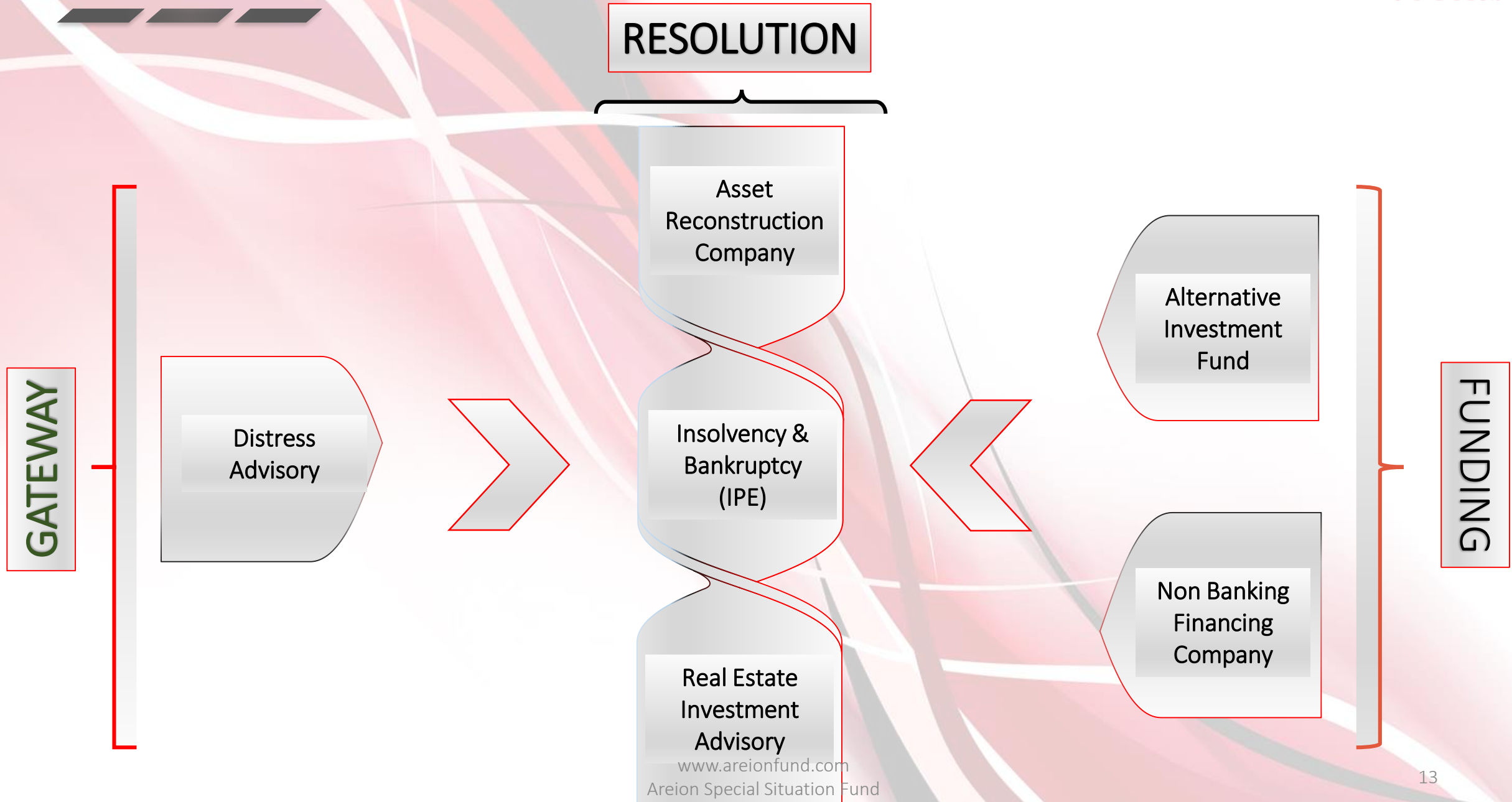
# Areion Group



# Areion Group Overview: Key Achievements



# Areion Group Overview: Ecosystem





## DISTRESS ADVISORY

- Team helps investors in acquisition of NPAs by understanding the potential issues, time, and recommending necessary actions.
- Advises on the optimal tranching of loans, investor communication, pre sale diligence and valuation of the portfolio.
- Specializes in doing OTS between distressed promoter and banks and has helped in resolving NPA of more than INR 12,000 Cr.



## ASSET RECONSTRUCTION COMPANY

- The ARC was granted Certificate of Registration by RBI u/s 3 of SARFAESI Act, 2002 in the year 2015.
- Over the past years, they have acquired assets from various Banks including SBI , BoB, BOI , Allahabad Bank, PNB, ICICI Bank, IFCI, Andhra Bank, UCO Bank, United Bank of India, Dena Bank, South Indian Bank, Co-operative Banks etc.
- The ARC has acquired cases worth more than INR 4,260 Cr.



## REAL ESTATE ADVISORY

- The team has expertise in minimizing risk and developing strategies regarding resources and assets to fit their organizational strategy whether distressed property is undeveloped land, improved properties, mixed-used developments, and easements.







## INSOLVENCY & BANKRUPTCY (IPE)

- IPE recognized by (IBBI) engaged in providing services in the field of CIRP and Liquidation.
- Advised diverse insolvency strategies across broad array of industries—Textiles, Automobile, Steel, Metals, Pharmaceuticals, Paper, Packaging, Dyes, Specialty Chemicals, Real Estate, Education..
- Also provides consultancy to the Corporate Debtor, Financial Creditor and Operational Creditor under the IBC Code for Resolution of the Stressed



## ASSET MANAGEMENT

- This Division is the Investment Manager of a Cat- II AIF focusing on investing in distressed assets.
- Areion Special Situation Fund is a contributory investment trust.
- The investment objective of the Fund is to carry on the activity of a 'Category II AIF' and generate long term capital appreciation by investing in companies or assets in India that are experiencing financial stress or distress



## NBFC

- A non-systemically important NBFC, registered under Section 45IA of The RBI Act, 1934 named KFL incorporated in July'95
- KFL has various financial products viz. customization, flexibility in repayment, higher loan eligibility and faster processing.



# Areion Group Overview: AIF Opportunities

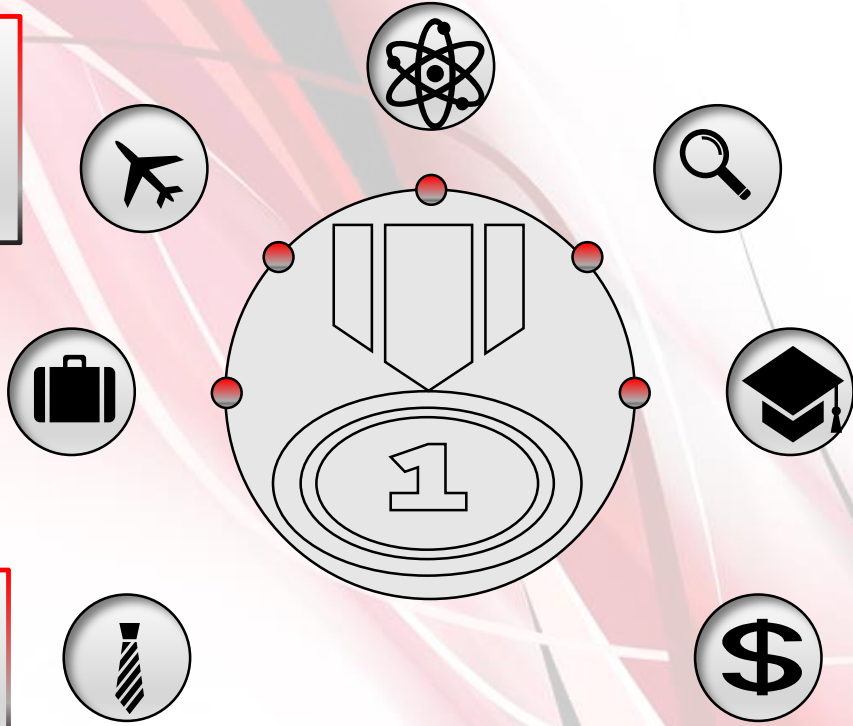


Pan India operations for the resolution of stressed debt throughout the country across a variety of industries.

Strong team with office in Mumbai, Delhi, Kolkata and Ahmedabad.

A decade of experience in the stressed assets industry.

Thorough understanding of the legal and practical challenges in resolving stressed assets.



Resolved Stressed debt across all the public and private sector banks/ ARCs /SFCs of the country.

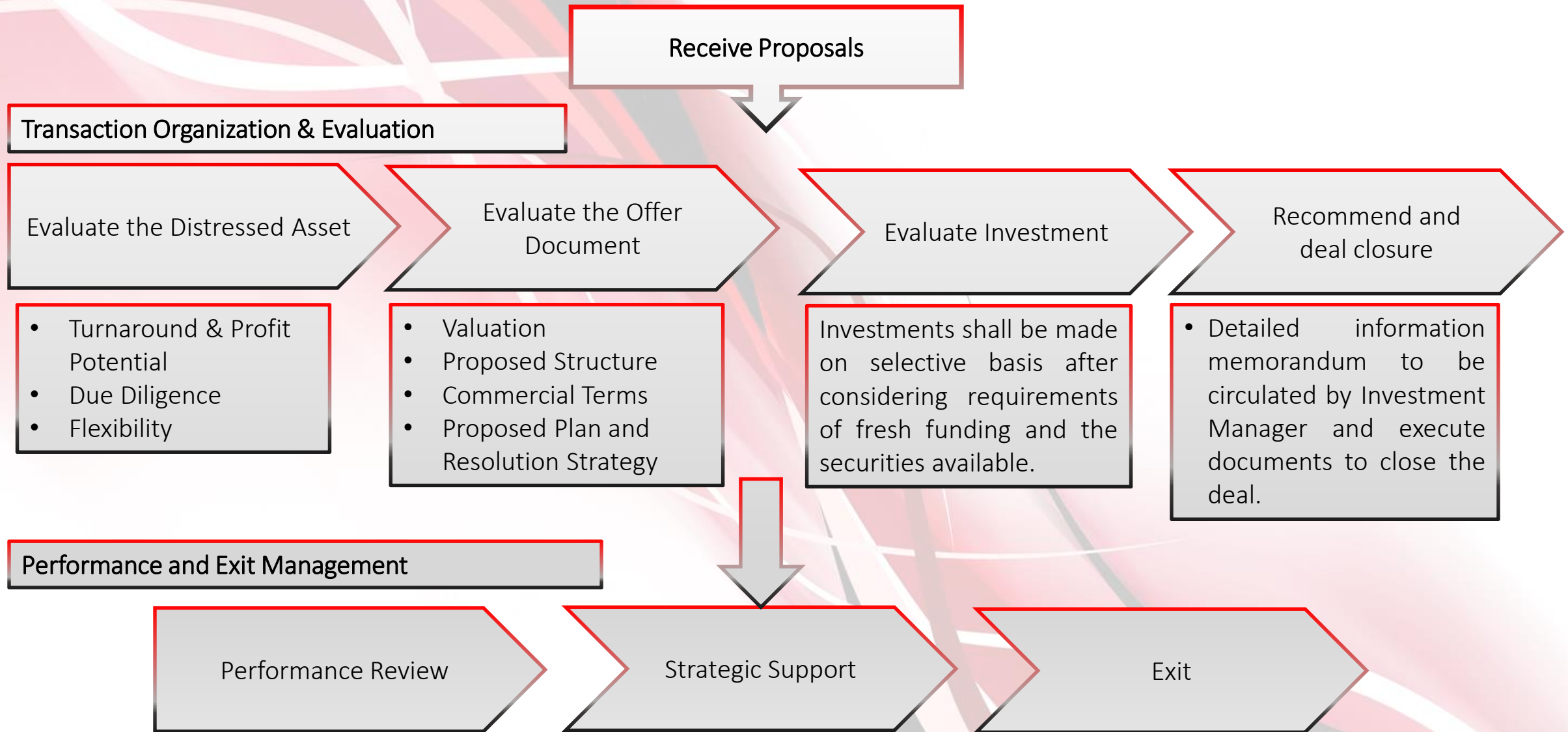
Sound knowledge of SARFAESI, DRT, IBC and related legislations.

Pivotal role in handling recovery of over INR 10,000 Cr in stressed assets.

# Areion Special Situation Fund



# Areion Special Situation Fund: AIF Overview



# Areion Special Situation Fund: AIF Opportunities



Areion can use its existing strength to leverage profitable opportunities in Category-II AIF

## Interim Finance during CIRP

- 701 cases admitted under IBC between Jna'17 to Aug'18
- The RP has the power to raise interim finance for continuing operations for Working Capital
- Continuing operations during CIRP helps fetching higher value for the assets.

**Investment Horizon:** 6-9 mths  
**IRR:** 18-24%

## Funding ARCs

- ARC is the only mechanism for banks to avoid IBC proceedings
- Small initial investment to acquire large asset portfolio.
- Big opportunity with banks looking to clean their books.

**Investment Horizon:** 3-8 yrs  
**IRR:** 22-24%

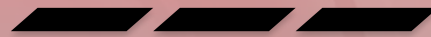
## Distressed Real Estate Acquisition

- Under SARFAESI action, real estate assets sold at distress prices, i.e. about 70% of fair market value.
- Infrastructure development in form of metro and highways leading to opportunities of rapid appreciation in tier-II cities.

**Investment Horizon:** 1-2 years  
**IRR:** 20-40%



# Fund Administration



## Fund Manager



**Mr. Anand Chawade**  
Director

- Executive Vice President, Essel Group from 2007 to 2017, where he had exposure to creating infrastructure vertical at Essel Group as CFO of Essel Infraprojects Limited. His initiatives comprised of:
  - Mobility & Transport
    - Road: BOT portfolio of over 5,000 lane km (through bidding and acquisition);
    - Airports: Participation in bids for Mumbai, Delhi and Goa airport privatisation;
    - Railways: Initiation of Railways PPP segment – bidding, station development.
  - Energy
    - Generation of Renewable/green energy
    - Transmission: BOT portfolio of over 1500 km ckt km transmission lines;
    - Distribution
  - Water
    - Water Distribution: portfolio of dam to tap water distribution for 3 cities with 15 lac population;
    - Desalination: participated in bids for desal plants
  - Environment – Municipal solid waste collection, processing and conversion to clean energy
- Prior work experience include Reliance Industries Limited from 1995 to 2000; in Textile at Raymond Limited from 2000 to 2002; at Essel Group (Satellite & Cable Television) from 2002 to 2005; and at Asset Reconstruction Company (India) Limited from 2005 to 2007.
- BE in Chemical Engineering from Indian Institute of Chemical Technology, Mumbai; Masters in Financial Management from Jamnalal Bajaj Institute of Management.

# Fund Administration: Leadership & Investment Team

## Fund Manager



**Mr. Dinesh Kanodia**  
Director

- Mr. Dinesh Kanodia, 40, is a Masters in Business Administration – Finance.
- He has worked and has been associated with Essel Group of Companies for more than 15 years and has vast and varied experience in field of Corporate Finance and Strategy.
- As a Head Finance – Essel Group he has worked across sectors – Media & Entertainment, Infrastructure, Education, NBFC and Gold refinery.
- He has been instrumental in raising promoter finance, corporate loans, project funding, acquisition funding at various verticals and enjoys good relationships with banks, nbfc and mutual funds.
- He has also been involved in various mergers and acquisitions and corporate restructuring. .

## Other Board Directors



**Mr. Navin Kanjwani**  
Director

- Chartered Accountant
- 15+ years of experience in Financial & Investment Management, Auditing and Consultancy in diverse geographies like India, Middle East, Australia etc.



**Mr. Sudarshan Mohatta**  
Director

- Chartered Accountant, Company Secretary & Cost Accountant
- 25 years of work experience in financing of projects, bid advisory, M&A.
- Ex- Vice President at SBI Capital Markets Limited



**Mr. Kamalkishore C. Jani**  
Director

- B.E. (Chemical)
- Ex- Independent Director of Gujarat Heavy Chemical Limited and Ex-Executive Director at IDBI.
- Extensive experience in establishing robust processing systems in Bank.

# Trends & Charts





# Trends & Charts: Funds & Recovery

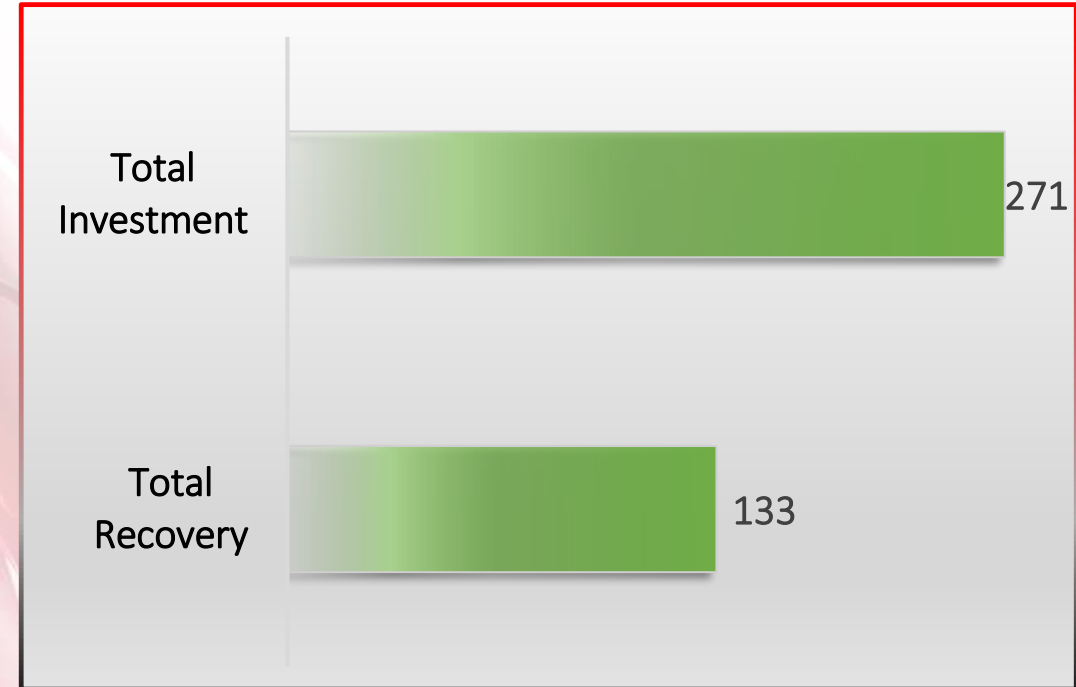


Total Commitments Received	170
----------------------------	-----

Total Drawdown	142
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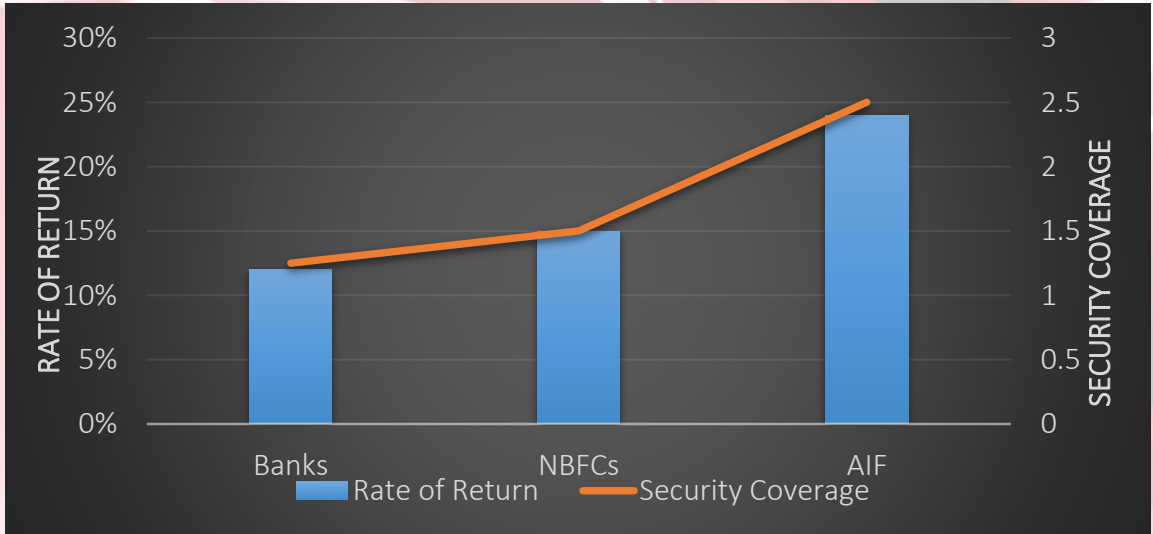
Gross Total Recovery	133
----------------------	-----

Total Portfolio Investment	271
----------------------------	-----



Balance Liquid Investment	4
---------------------------	---

# Trends & Charts: Returns & Coverages

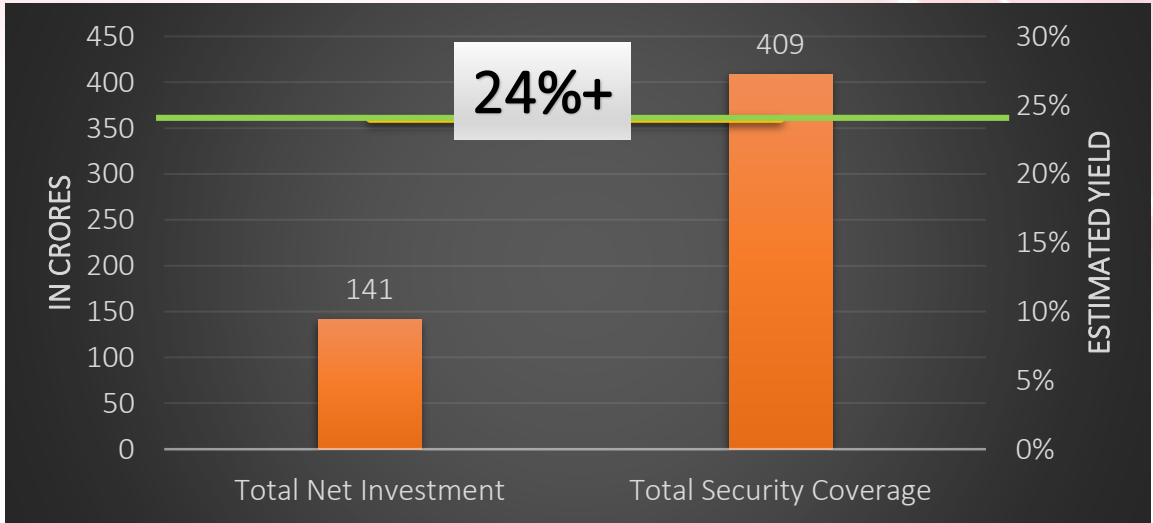


Expected Gross Return	24%
-----------------------	-----

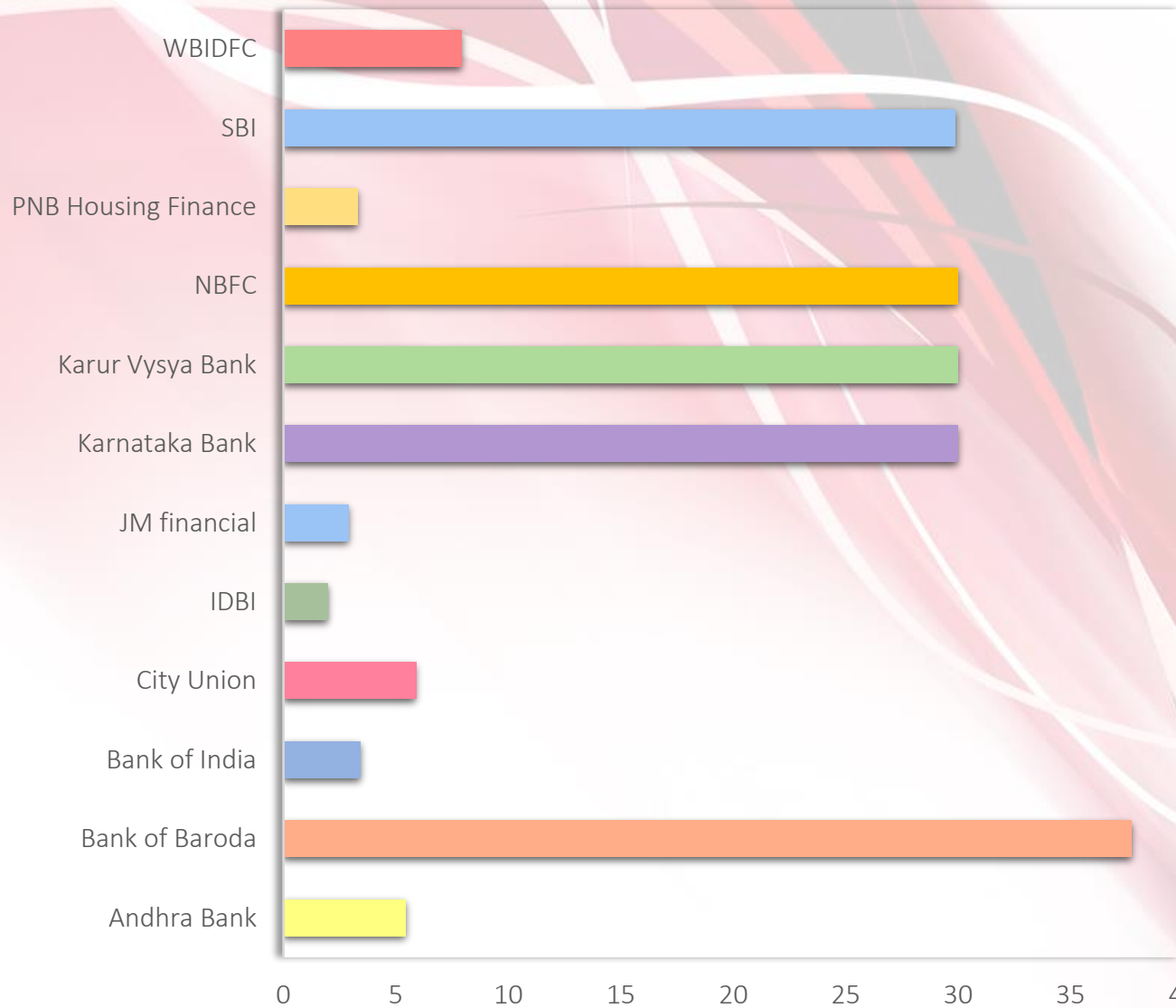
Minimum Security Coverage	2X
---------------------------	----

Alpha ( $\alpha$ )	15%
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Beta ( $\beta$ )	0.30
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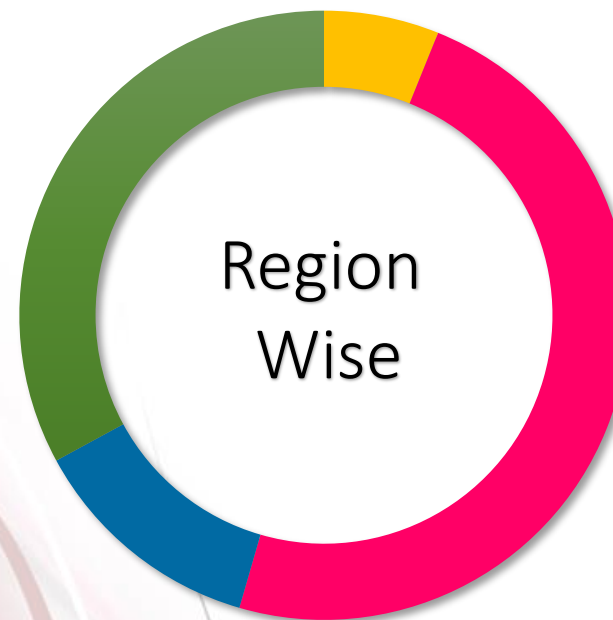


# Trends & Charts: Diversification

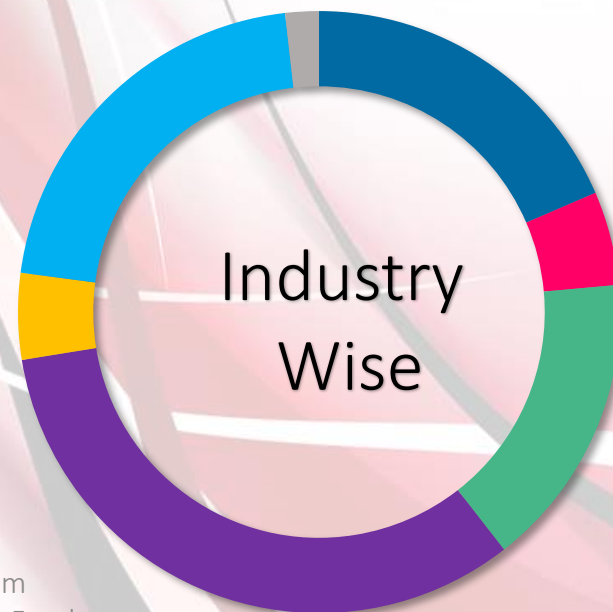


Financial Institution Wise

www.areionfund.com  
Areion Special Situation Fund



- East India (6%)
- North India (48%)
- South India (13%)
- West India (33%)



- Auto (19%)
- Construction (5%)
- Financial Services (16%)
- Food Processing (33%)
- Healthcare (5%)
- Iron & Steel (21%)
- Others (2%)

# Trends & Charts: Recovery Notes



Industry	Deal Type	Deal Amount	Transaction Highlights
Agriculture	Acquisition Financing	INR 57.60 Cr.	<ul style="list-style-type: none"> <li>The company was admitted into NCLT (Insolvency &amp; Bankruptcy) in July, 2019.</li> <li>The fund managers, sensing the potential resolution of the account under NCLT, had bought the share of one of the banks dues in May 2019.</li> <li>After receiving various resolution plan, the plan was approved by NCLT in Sep 19 &amp; the share plan amount was realized by Oct 2019.</li> <li>This resulted in ~26% absolute return within a period of 5 months.</li> <li>All the above debts were acquired through the group ARC</li> </ul>
Gems and Jewelry	Acquisition Financing	INR 3.17 Cr.	<ul style="list-style-type: none"> <li>The Fund managers financed ARC acquisition of a default account from a bank.</li> <li>The ARC resolved the account through an One time settlement (OTS) with the promoters resulting in an ~44% absolute return.</li> </ul>
Iron & Steel	Acquisition Financing	INR 9 Cr.	<ul style="list-style-type: none"> <li>The Fund managers financed ARC acquisition of a default account from a bank.</li> <li>Sensing the possibility of an early exit and availability of potential more profitable accounts in the pipeline, the Fund Managers decided to sell their share of the account in less than 1 month resulting in an ~17% absolute return.</li> </ul>

# Transaction Pipeline



No. of Investments  
in Pipeline

18

Total Funding  
Requirement

INR  
750  
Cr

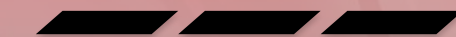
Estimated  
Yield

24%

Acquisition Route	Industry/ Bank	Proposed Fund Requirement	Expected IRR
NCLT Resolution	Hospitality	120	24+ %
	Pharma	70	
	Steel	70	
	Others	10	
ARC Resolution	State Bank of India	125	
	Bank of Baroda	80	
	Other Banks	275	



# Fund & Fees Structure



# Fund Structure & Terms



## FUND STRUCTURE

Fund	Areion Special Situation Scheme – I & II
Nature of fund	Category II, Close Ended Fund
Fund target size	<u>Scheme I</u> : INR 100 Cr (plus upto an additional INR 20 Cr greenshoe option) <u>Scheme II</u> : INR 250 Cr (plus upto an additional INR 225 Cr greenshoe option)
Investment manager	Areion Assets Management Pvt. Ltd.
Minimum capital commitment	INR 1 Cr.
Minimum Commitment Period	3 years
Target Net Return	18%

## FEE STRUCTURE

Fees	Quarterly
Operating Expenses	1% p.a.
Management Fees	2% p.a.
Hurdle rate	10%
Catch Up & Carried Interest	20%

# Fund Structure & Terms

## Examples for Better Understanding

		S1	S2	S3
A	Capital Invested	100	100	100
B	Realized Profit of the Fund	10	15	20
C	Hurdle (10% on A)	10	10	10
D	Catch Up (20% * Sum of C & D)	Nil	2.5	2.5
E	Carried Interest (20% of B - C - D)	Nil	0.5	1.5
F	Net Profit Distribution to Investors (B - D - E)	10	12	16

The Investment Manager receives 20% of the realized profits only and only after the Hurdle mark is crossed

The realized profits are after providing the management fees.

The Investor receives 100% of the realized profit until Hurdle Rate is achieved.

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# THANK YOU

