

RATING RATIONALE

10 Sept 2020

A. K. Capital Finance Limited

Brickwork Ratings assigns 'BWR AA-' /Stable for the Non-Convertible Debentures and reaffirms rating for all existing NCDs and bank loan facilities of A. K. Capital Finance Limited

Particulars

Instruments / Facilities**	Amount (Rs.Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2020)	Present @
Bank Loan Fund Based	578.12	578.12	Long Term	BWR AA- (Stable)	BWR AA- (Stable) (Reaffirmed)
Non-Convertible Debentures (NCDs)	204.55	204.55	Long Term	BWR AA (CE) (Stable)	BWR AA (CE) (Stable) (Reaffirmed)
	300.52	300.52	Long Term	BWR AA+ (CE) (Stable)	BWR AA+ (CE) (Stable) (Reaffirmed)
	50.00	50.00	Long Term	BWR AA- (Stable)	BWR AA- (Stable) (Reaffirmed)
	-	250.00	Long Term	-	BWR AA- (Stable) (Assigned)
Total	1133.19	1383.19	Rupees One Thousand Three Hundred Eighty-Three Crores and Nineteen Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank facilities/NCD/bonds/commercial paper are provided in Annexure-I&II

Brickwork Ratings (BWR) has assigned 'BWR AA-' /Stable to the Rs. 250 Crs non-convertible debentures (NCDs) of A. K. Capital Finance Limited (AKCFL or the company) while reaffirming the ratings on the company's existing debt instruments and bank loan facilities at 'BWR AA+(CE)/ AA(CE)/ AA-' /Stable, as tabulated above.

The ratings factor in the experienced management, long track record of the group in the merchant banking business, sound asset quality in the fund-based business and comfortable capitalisation. However, the ratings are constrained by inherent volatility in the debt capital markets business and limited scale of financing operations.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes that A. K. Capital Finance Limited will continue to maintain its credit risk profile.

ANALYTICAL APPROACH

For arriving at the ratings, BWR has combined the business and financial risk profiles of the A K Capital group companies, which mainly include A.K. Capital Services Limited (AKCSL) and its subsidiaries, A. K. Capital Finance Limited (AKCFL), A.K. Stockmart Private Limited (AKSPL), A.K. Wealth Management Private Limited, A.K. Capital



Corporation Private Limited, Family Home Finance Private Limited and A.K. Capital Singapore Pte. This is because all the companies (a part of the A.K. Capital group), have significant financial, managerial and operational linkages.

Credit Enhancement (CE): The ratings of the previous outstanding NCDs with a credit enhancement draws a comfort in the form of a separate debt service reserve account (DSRA) created and managed by the debenture trustee and also primary security collateral in the form of investments in highly rated credit instruments.

The company is maintaining a DSRA of minimum 20% and 15% of the NCD principal outstanding through the tenure of the instruments rated BWR AA+ (CE) and BWR AA (CE), respectively. Furthermore, a part of the NCDs rated with a credit enhancement are backed by primary security collateral in the form of an investment in high-rated credit instruments.

KEY COVENANTS OF THE CREDIT ENHANCED INSTRUMENT RATED:

1. The company is required to maintain an amount of up to 20% and 15% of outstanding NCDs in the DSRA throughout the tenure of instruments.
2. The NCDs under the credit enhancement structure are secured by primary collateral in the form of investments in high-rated credit instruments.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced management and long track record of business:** The A K Capital group has almost three decades of experience and an established position in debt capital markets in India. The group has a competitive position as a merchant banker in the corporate bond and fixed income markets. Mr. A K Mittal (the MD and CEO) has more than 30 years of experience in the industry. The management of the group consists of experienced professionals with a vast experience in the financial services space. The group with its sourcing, underwriting and distributing capabilities for the private and public sectors has established strong relations with its clients.

A.K. Capital Group has arranged debt for the Indian banking sector in the form of lower Tier II/ upper Tier II/perpetual bonds having a value of ~Rs.10.50 lakh Crs. Over the past 11 years, from 2009-10 to 2019-20, A.K. Capital has managed 1634 assignments of the private placement of debt aggregating to Rs. 13.05 lakh Crs. For FY 2019-20, A.K. Group managed 147 assignments amounting to Rs 2.57 lakh Crs, compared with 125 assignments amounting to Rs. 1.54 lakh Crs during FY 20.

- **Comfortable capital position:** As on 31 March 2020, the group-level tangible networth stood at Rs. 636.39 Crs, compared with Rs 626.63 Crs as on 31 March 2019. AKCFL has maintained its capital adequacy ratio of more than 20% during the last three years. As on 30 June 2020, the capital-to-risk weighted assets ratio (CRAR) of the company stood at 49.42%, against 49.81% as on 31 March 2020. During FY 20, the group's total borrowing decreased substantially as it had prepaid most of its high-cost debt in FY20 and further during Q1FY21. The group has not opted for a

moratorium from any of its lenders. On account of the above, the group's debt to tangible net worth ratio improved to 1.38 times as on 31 March 2020, compared with 2.99 times as on 31 March 2019.

- **Sound asset quality:** The groups fund-based business carried out through AKCFL uniquely operates as a debt capital market (DCM) NBFC and follows a low-risk model with customised debt solutions in the form of loans and fixed income instruments spread over a short to medium term. The group's stringent risk management policies and demonstrated ability to exit stressed exposures early on has resulted in the company maintaining a robust asset quality. AKCFL has reported nil non-performing assets (NPAs) from inception until date.

Credit Risks:

- **Inherent volatility in debt capital markets business:** The AK Capital group's business activities in debt capital markets are exposed to economic cyclicality and macroeconomic indicators, including a movement in the interest rate, GDP growth and inflation, wherein any adverse movement in any of these factors will result in volatility in the business performance, considering its income depends on the activity in debt market issues and the distribution of the same to its clients. In spite of a higher issuance managed by the group in FY20, it has reported decline in income, as well as profits, due to limited margins in the merchant banking business. During FY20, the group reported a total income of Rs. 314.21 Crs and profit after tax of Rs. 51.48 Crs, against a total income of Rs. 421.67 Crs and profit after tax of Rs. 71.96 Crs during FY19. The return on average assets (ROA) was at 2.04% in FY20, against 2.09% in FY19 for A.K. Capital Finance Limited on a standalone basis. BWR believes the income and profitability of the group will be maintained during FY21, subject to the inherent risk associated in debt capital markets over the medium term.
- **Limited scale of financing operations:** The group has a limited size of the AUM comprising core lending/loan book and treasury investments with a concentrated set of clienteles. Most treasury investments could be opportunity-based and on behalf of and backed by commitments from clients to buy from the NBFC in a short period of time, thereby mitigating the market price volatility. The AUM of AKCFL declined to Rs.1290.87 Crs in FY20, against Rs. 2297.33 Crs during FY19 due to limited market opportunity for lending and investments as per the group's lending and investments strategy. The AUM has further reduced to Rs. 1222.50 Crs during Q1FY20. Despite the impact of the COVID-19 pandemic, the collection efficiency in July 2020 was at ~94% for the core lending book and 100% for marketable debt instruments. However, given the COVID-19 impact on the domestic economy, the group's overall credit profile will be a key monitorable over the medium term.

RATING SENSITIVITIES

Positive: A significant improvement in the financial risk profile and the market share of the group, including a substantial increase in revenue and profitability while maintaining asset quality, will be rating positive.

Negative: A significant deterioration in business volumes, asset quality or earning profile, and the non-maintenance of the DSRA and security under the CE structure will be rating negative.

ADEQUACY OF CREDIT ENHANCEMENT STRUCTURE

The presence of 20% and 15% DSRA and a primary security collateral cover provides enough cushion to absorb any short-term liquidity mismatch and ensure the timely payment of interest of the NCDs. Furthermore, the availability of primary security in the form of investments in higher-rated papers, provides adequate comfort for the repayment of NCDs in the event of a deterioration in the entity's credit profile.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

LIQUIDITY INDICATORS: ADEQUATE

As on 26 August 2020, on a consolidated level, the group had liquidity of Rs. 380.59 Crs, i.e., liquid investments of Rs 325.66 Crs, and cash and cash equivalent of Rs. 54.93 Crs against the debt obligation of Rs. 219.28 Crs (this is excluding CC/OD/Car loan /Housing loan) payable from 1 September 2020 to 31 March 2021. The group also has undisbursed sanctions of Rs. 918.00 Crs as on date.

COMPANY PROFILE

A. K. Capital Finance Limited (AKCFL), formerly known as A. K. Capital Finance Private Limited and Giridhar Vanijya Private Limited, was incorporated in 2006 and was acquired by A K Capital Services Limited, the flagship company of A K Capital Group. A K Capital Finance Limited is registered with the RBI as a non-deposit taking systemically important non-banking finance company (ND-SI-NBFC). It is a 98.73% subsidiary of AKCSL, a category I merchant banker listed on the Bombay Stock Exchange (BSE). AKCSL is a leading player in the corporate bond and fixed income market in India.

AKCFL primarily operates a hybrid business model, under which the revenue streams consist of an interest income from its lending book, fees income and treasury-based income from its investments book. While there is synergy between the activities of AKCSL and AKCFL, all the lending and investments decisions of AKCFL are independent of its parent's activities and are carried out on an arm's length basis. Such lending and investment decisions are based on AKCFL's own yield/return benchmark.

A K Capital group companies also complement each other right through client sourcing, lending and other ancillary services. Parent company A K Capital Services Limited conducts the merchant banking activity, and A K Capital Finance Limited is the NBFC arm of the group. The NBFC deals with fixed-income instruments and also lending activities. A K Stockmart Private Limited (a 100% subsidiary of AK Capital Services Ltd.) does broking

activities and third-party product distribution for the group. It provides broking services in the wholesale debt market (WDM) and retail debt market (RDM), and acts as a depository participant.

KEY FINANCIAL INDICATORS A K Capital Finance Limited (Consolidated)

Key Financial Indicators	Units	FY 19	FY20
Result Type		Audited	Audited
Total Income	Rs.in Crs	225.18	183.66
Profit after tax	Rs.in Crs	46.42	37.01
Tangible Networkth	Rs.in Crs	544.08	567.43
Total Debt	Rs in Crs	1777.84	841.51
Debt to Tangible Networkth	Times	3.27	1.48
GNPA & NNPA	%	Nil %	Nil %
CRAR	%	24.67%	49.81%

KEY FINANCIAL INDICATORS – A K Capital Services Limited (Consolidated)

Key Financial Indicators	Units	FY19	FY20	Q1FY21
Result Type		Audited	Audited	UnAudited
Total Income	Rs in Crs	421.67	314.21	57.09
Profit After tax	Rs in Crs	71.96	51.48	13.68
Tangible Networkth	Rs in Crs	626.63	636.39	-
Total Debt	Rs in Crs	1875.41	878.40	-
Debt to Tangible Networkth	Times	2.99	1.38	-

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument / Facilities	Tenure	Current Rating (Sep 2020)			Rating History			
		Amount Rs. Crs	Rating	1 Sep 20	29 Jan 20	2019	2018	2017
Fund Based	Long Term	578.12	BWR AA- (Stable)					
NCD	Long Term	250.00	BWR AA- (Stable)	-	-	-	-	-
NCD	Long Term	50.00	BWR AA- (Stable)	BWR AA- (Stable)	-	-	-	-
NCD	Long Term	151.00	BWR AA+ (CE) (Stable)	BWR AA+ (CE) (Stable)	BWR AA+ (CE) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	-
NCD	Long Term	149.52	BWR AA+ (CE) (Stable)	BWR AA+ (CE) (Stable)	BWR AA+ (CE) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)
NCD	Long Term	82.00	BWR AA (CE) (Stable)	BWR AA (CE) (Stable)	BWR AA (CE) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)
NCD	Long Term	24.55	BWR AA (CE) (Stable)	BWR AA (CE) (Stable)	BWR AA (CE) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)
NCD	Long Term	98.00	BWR AA (CE) (Stable)	BWR AA (CE) (Stable)	BWR AA (CE) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	-
NCD	Long Term	-	-	-	-	Withdrawn	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)
NCD	Long Term	-	-	-	-	Withdrawn	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)
Total		1383.19						

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)

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A K Capital Finance Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term Rs. Crs.	Short Term Rs. Crs.	Total Rs. Crs.
1	Bank of India	CC/OD/WC DL	275	-	275.00
2	Bank of Baroda	Term Loan	62.50	-	62.50
3	Union Bank of India	Term Loan	115.62	-	115.62
4	Bank of Maharashtra	CC/OD/WC DL	75	-	75.00
5	Karur Vysya Bank	CC/WCDL	50	-	50.00
TOTAL					578.12

Total Rs. Five Hundred Seventy Eight Crs. and Twelve lakhs only.

**ANNEXURE II
INSTRUMENT (NCD/Bonds) DETAILS**

Instrument	Issue Date	Amount in ₹ Cr.	Coupon Rate	Maturity Date	ISIN Particulars	Series	Ratings
NCD	07-Mar-17	23.45	9.60%	07-Mar-22	INE197P07011	Series A - I	BWR AA(SO)
NCD	07-Mar-17	25.00	9.60%	07-Mar-24	INE197P07029	Series B - I	BWR AA(SO)
NCD	07-Mar-17	5.00	9.70%	07-Mar-27	INE197P07037	Series B - II	BWR AA(SO)
NCD	09-Mar-17	1.00	9.60%	09-Mar-22	INE197P07045	Series A - II	BWR AA(SO)
NCD	09-Mar-17	26.00	9.60%	09-Mar-24	INE197P07052	Series B - III	BWR AA(SO)
NCD	09-Mar-17	20.00	9.40%	09-Sep-21	INE197P07060	Series B - IV	BWR AA(SO)
NCD	20-Mar-17	0.01	9.60%	20-Mar-22	INE197P07078	Series A - III	BWR AA(SO)
NCD	20-Mar-17	2.00	9.50%	20-Mar-22	INE197P07086	Series B - V	BWR AA(SO)
NCD	20-Mar-17	5.00	9.60%	20-Mar-24	INE197P07094	Series B - VI	BWR AA(SO)
NCD	21-Mar-17	15.00	9.60%	21-Mar-24	INE197P07102	Series B - VII	BWR AA(SO)
NCD	23-Jun-17	5.00	9.50%	23-Jun-27	INE197P07128	Series E - I	BWR AA+(SO)
NCD	10-Aug-17	64.52	9.00%	10-Aug-24	INE197P07144	Series E - II	BWR AA+(SO)
NCD	09-Nov-17	5.00	8.80%	09-Nov-22	INE197P07151	Series G	BWR AA+(SO)
NCD	06-Dec-17	75.00	9.40%	06-Dec-24	INE197P07169	Series H	BWR AA+(SO)
NCD	03-Apr-18	50.00	9.40%	03-Apr-23	INE197P07177	Series I	BWR AA(SO)
NCD	08-May-18	32.00	9.20%	08-Nov-21	INE197P07185	Series J	BWR AA(SO)
NCD	28-Jun-18	71.00	9.75%	28-Jun-25	INE197P07193	Series K	BWR AA+(SO)
NCD	29-Jun-18	25.00	9.75%	29-Jun-23	INE197P07201	Series L	BWR AA+(SO)
NCD	28-Aug-18	5.00	9.60%	28-Aug-23	INE197P07219	Series M	BWR AA+(SO)
NCD	18-Sep-18	35.00	9.95%	18-Sep-25	INE197P07227	Series N	BWR AA+(SO)
NCD	25-Sep-18	15.00	9.50%	25-Mar-22	INE197P07235	Series O	BWR AA+(SO)
		505.07					

Total Rs. Five Hundred and Five Crs and Seven Lakhs Only

ANNEXURE III

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
A K Capital Corporation Private Limited	100%	100%	Subsidiary
A K Capital Finance Limited	98.73%	98.73%	Subsidiary
A K Stockmart Private Limited	100%	100%	Subsidiary
A K Wealth Management Private Limited	100%	100%	Subsidiary
A K Capital (Singapore) PTE Limited	100%	100%	Subsidiary
Family Home Finance Private Limited	98.73%	98.73%	Step down Subsidiary

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