



RATING RATIONALE

01 December 2020

A.K. Capital Finance Limited

Brickwork Ratings assigns ratings for the Non-Convertible Debentures (NCDs) and reaffirms the 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	529.17	Long Term	BWR AA-/Stable	BWR AA-/Stable (Reaffirmed)
Non-Convertible Debentures (NCDs)	204.55	164.55	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	250.00	Long Term	BWR AA- /Stable	BWR AA- /Stable (Reaffirmed)
	-	325.00	Long Term	-	BWR AA-/Stable (Assigned)
Total	1383.19	1619.24	Rupees One Thousand Six Hundred Nineteen crores and Twenty-Four Lakhs Only		

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

** Details of Bank Loan Facilities/NCD/Bonds/Commercial Paper are provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has assigned 'BWR AA-' /Stable to the Rs. 325 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. BWR noted that the company has fully redeemed ISIN INE197P07060 of Rs. 20 Crs and partially redeemed ISIN INE197P07185 by Rs. 20 Crs (against Rs. 32 Crs outstanding for the ISIN).

The ratings factor in the experienced management, long track record of the group in the merchant banking business, comfortable capitalisation and sound asset quality in the fund-based business. 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 AKCFL will continue to maintain its credit risk profile.

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 FY19-20, 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 FY20.

- **Comfortable capital position:** As on 30 September 2020, the group-level tangible networth stood at Rs. 666.11 Crs, compared with Rs. 636.39 Crs as on 31 March 2020 and 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 September 2020, the company's capital-to-risk weighted assets ratio (CRAR) stood at 48.89%, against 49.81% as on 31 March 2020. During H1FY21, the group's total borrowing marginally increased to Rs. 996.15 Crs against Rs. 878.40 Crs as on 31 March 2020. The group has not opted for a moratorium from any of its lenders. On account of the above, the group's debt to tangible networth ratio marginally increased to 1.50 times as on 30 September 2020, compared with 1.38 times as on 31 March 2020. The group's ability to maintain its debt to tangible networth ratio as per its strategy will be key monitorable
- **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 cyclicalities 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 AKCFL on a standalone basis. On a standalone basis, during H1FY21, the company reported a total income of Rs. 82.06 Crs with a profit of Rs. 21.06 Crs. BWR believes the group's income and profitability will be maintained during FY21, subject to the inherent risk associated in debt capital markets over the medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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 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.

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 the earning profile, and the non-maintenance of the DSRA and security under the CE structure will be rating negative.

LIQUIDITY INDICATORS

As on 15 November 2020, on a consolidated level, the group had liquidity of Rs. 278.20 Crs, i.e., liquid investments of Rs 267.91 Crs, and cash and cash equivalent of Rs. 10.29 Crs against the debt obligation of Rs. 35.02 Crs (this is excluding CC/OD/Car loan /housing loan) payable from 1 December 2020 to 31 March 2021. The group also had undisbursed sanctions of Rs. 1050.00 Crs as on 15 November 2020.



Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (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 and to collect accumulated interest and principal dues on a timely basis 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.

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
Result Type		Aud	Aud
Total Income	Rs in Crs	421.67	314.21
Profit After tax	Rs in Crs	71.96	51.48
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

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.

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.

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY : NA

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

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T - 2020)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating	Date(s)& Rating(S) assigned in year T-1 2019	Date(s) & Rating(s) assigned in Year T-2 2018	Dates(Rating assigned in in Year T-3 2017
1	Fund Based	Long Term	529.17	BWR AA-/Stable 10-Sep-2020 BWR AA-/Stable 1-Sep-2020 BWR AA-/Stable 29-Jan-2020 BWR AA-/Stable	26-Mar-2019 BWR AA-/Stable 28-Jun-2019 BWR AA-/Stable	07-Feb-18 BWR AA - /Stable 06-Jun-18 BWR AA - /Stable 10-Jul-18 BWR AA-/Stable	19-Dec-17 BWR AA - /Stable
2	NCD	Long Term	325.00	BWR AA-/Stable	-	-	-

3	NCD	Long Term	250.00	BWR AA-/Stable 10-Sep-2020 BWR AA-/Stable	-	-	-
4	NCD	Long Term	50.00	BWR AA-/Stable 10-Sep-2020 BWR AA-/Stable 1-Sep-2020 BWR AA-/Stable	-	-	-
5	NCD	Long Term	151.00	BWR AA+ CE /Stable 10-Sep-2020 BWR AA+ CE /Stable 1-Sep-2020	26-Mar-2019 BWR AA+ (SO)/Stable 28-Jun-2019 BWR AA+ (SO)/Stable	07-Feb-18 BWR AA+ (SO) /Stable 06-Jun-18 BWR AA (SO) /Stable	1 Mar-17 BWR AA (SO) /Stable 24 Mar-17 BWR AA (SO) /Stable 1 Jun-17

				BWR AA+ CE /Stable 29-Jan-2020 BWR AA+ CE /Stable		10-Jul-18 BWR AA+ (SO) /Stable	BWR AA (SO) /Stable 19-Dec-17 BWR AA (SO) /Stable
6	NCD	Long Term	149.52	BWR AA+ CE /Stable 10-Sep-2020 BWR AA+ CE /Stable 1-Sep-2020 BWR AA+ CE /Stable 29-Jan-2020 BWR AA+ CE /Stable	26-Mar-2019 BWR AA+ (SO)/Stable 28-Jun-2019 BWR AA+ (SO)/Stable	07-Feb-18 BWR AA+ (SO) /Stable 06-Jun-18 BWR AA+ (SO) /Stable 10-Jul-18 BWR AA+ (SO) /Stable	1 Jun-17 BWR AA (SO) /Stable 19-Dec-17 BWR AA (SO) /Stable
7	NCD	Long Term	62.00	BWR AA CE /Stable 10-Sep-2020	26-Mar-2019 BWR AA (SO)/Stable 28-Jun-2019 BWR AA (SO)/Stable	07-Feb-18 BWR AA (SO) /Stable 06-Jun-18	1 Jun-17 BWR AA (SO) /Stable 19-Dec-17

				<p>BWR AA CE /Stable</p> <p>1-Sep-2020</p> <p>BWR AA CE /Stable</p> <p>29-Jan-2020</p> <p>BWR AA CE /Stable</p>		<p>BWR AA (SO) /Stable</p> <p>10-Jul-18</p> <p>BWR AA (SO) /Stable</p>	<p>BWR AA (SO) /Stable</p>
8	NCD	Long Term	23.45	<p>BWR AA CE /Stable</p> <p>10-Sep-2020</p> <p>BWR AA CE /Stable</p> <p>1-Sep-2020</p> <p>BWR AA CE /Stable</p> <p>29-Jan-2020</p> <p>BWR AA CE /Stable</p>	<p>26-Mar-2019</p> <p>BWR AA (SO)/Stable</p> <p>28-Jun-2019</p> <p>BWR AA (SO)/Stable</p>	<p>07-Feb-18</p> <p>BWR AA (SO) /Stable</p> <p>06-Jun-18</p> <p>BWR AA (SO) /Stable</p> <p>10-Jul-18</p> <p>BWR AA (SO) /Stable</p>	<p>24 Mar-17</p> <p>BWR AA (SO) /Stable</p> <p>1 Jun-17</p> <p>BWR AA (SO) /Stable</p> <p>19-Dec-17</p> <p>BWR AA (SO) /Stable</p>

9	NCD	Long Term	79.10	<p>BWR AA CE /Stable</p> <p>10-Sep-2020</p> <p>BWR AA CE /Stable</p> <p>1-Sep-2020</p> <p>BWR AA CE /Stable</p> <p>29-Jan-2020</p> <p>BWR AA CE /Stable</p>	<p>26-Mar-2019</p> <p>BWR AA (SO)/Stable</p> <p>28-Jun-2019</p> <p>BWR AA (SO)/Stable</p>	<p>07-Feb-18</p> <p>BWR AA (SO) /Stable</p> <p>06-Jun-18</p> <p>BWR AA (SO) /Stable</p> <p>10-Jul-18</p> <p>BWR AA (SO) /Stable</p>	<p>1 Jun-17</p> <p>BWR AA (SO) /Stable</p> <p>19-Dec-17</p> <p>BWR AA (SO) /Stable</p>
10	NCD	Long Term	-	----	<p>6-Dec-2019 Withdrawn</p>	<p>07-Feb-18</p> <p>BWR AA (SO) /Stable</p> <p>6-Jun-18</p> <p>BWR AA (SO) /Stable</p> <p>10-Jul-18</p> <p>BWR AA (SO) /Stable</p>	<p>1 Jun-17</p> <p>BWR AA (SO) /Stable</p> <p>19-Dec-17</p> <p>BWR AA (SO) /Stable</p>
11	NCD	Long Term	-	----	<p>6-Dec-2019 Withdrawn</p>	<p>07-Feb-18</p>	<p>1 Jun-17</p>

						BWR AA (SO) /Stable 6-Jun-18	BWR AA (SO) /Stable 19-Dec-17
						BWR AA (SO) /Stable 10-Jul-18	BWR AA (SO) /Stable
						BWR AA (SO) /Stable	
	Total		1619.24				

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.	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
1	CC/OD/WCDL	275.00	-	275.00
2	Term Loan	62.50	-	62.50
3	Term Loan	66.67	-	66.67
4	CC/OD/WCDL	75.00	-	75.00
5	CC/WCDL	50.00	-	50.00
	TOTAL	529.17	-	529.17
Total Rs. Five Hundred Twenty Nine Crores and Seventeen Lakhs only/-				

ANNEXURE II

INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS

Instrument	Issue Date	Amount in ₹ Cr.	Coupon Rate	Maturity Date	ISIN Particulars
NCD	07-Mar-17	23.45	9.60%	07-Mar-22	INE197P07011
NCD	07-Mar-17	25.00	9.60%	07-Mar-24	INE197P07029
NCD	07-Mar-17	5.00	9.70%	07-Mar-27	INE197P07037
NCD	09-Mar-17	1.00	9.60%	09-Mar-22	INE197P07045
NCD	09-Mar-17	26.00	9.60%	09-Mar-24	INE197P07052
NCD	20-Mar-17	0.10	9.60%	20-Mar-22	INE197P07078
NCD	20-Mar-17	2.00	9.50%	20-Mar-22	INE197P07086
NCD	20-Mar-17	5.00	9.60%	20-Mar-24	INE197P07094
NCD	21-Mar-17	15.00	9.60%	21-Mar-24	INE197P07102
NCD	23-Jun-17	5.00	9.50%	23-Jun-27	INE197P07128
NCD	10-Aug-17	64.52	9.00%	10-Aug-24	INE197P07144

NCD	09-Nov-17	5.00	8.80%	09-Nov-22	INE197P07151
NCD	06-Dec-17	75.00	9.40%	06-Dec-24	INE197P07169
NCD	03-Apr-18	50.00	9.40%	03-Apr-23	INE197P07177
NCD	08-May-18	12.00	9.20%	08-Nov-21	INE197P07185
NCD	28-Jun-18	71.00	9.75%	28-Jun-25	INE197P07193
NCD	29-Jun-18	25.00	9.75%	29-Jun-23	INE197P07201
NCD	28-Aug-18	5.00	9.60%	28-Aug-23	INE197P07219
NCD	18-Sep-18	35.00	9.95%	18-Sep-25	INE197P07227
NCD	25-Sep-18	15.00	9.50%	25-Mar-22	INE197P07235
NCD	25-Sep-20	100.00	8.00%	25-Mar-22	INE197P07243
NCD	05-Oct-20	50.00	8.00%	05-Apr-22	INE197P07250
NCD	15-Oct-20	75.00	8.00%	15-Apr-22	INE197P07268
		690.07			
Total Rs. Six Hundred Ninety 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



For print and digital media

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