



RATING RATIONALE

29 Jan 2020

A.K. Capital Finance Limited

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of Rs.885 Crores and Non Convertible Debentures of Rs 600 Crores of A K Capital Finance Limited

Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (June and Nov 2019)	Present Reaffirmed
Fund Based	875	885	Long Term	BWR AA- (Stable)	BWR AA- (Stable)
NCD	350	250	Long Term	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)
NCD	450	350	Long Term	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)
Total	1675	1485	Rupees Fourteen Hundred Eighty Five Crores Only		

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

** Details of Bank Loan facilities and Non-Convertible Debentures (NCDs) is provided in Annexure-I & II

RATING ACTION: REAFFIRMED

Brickwork Ratings (BWR) has reaffirmed its BWR AA-/AA+(SO)/AA (SO) ratings on the various debt facilities/ instruments of A.K. Capital Finance Limited. For arriving at the ratings, BWR has combined the business and financial risk profiles of A K Capital group companies. The rating continues to 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 debt capital markets business and high proportion of corporate loan portfolio.

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



KEY RATING DRIVERS

Credit Strengths:

Long track record and competitive position as a merchant banker in corporate bond and fixed income market: A K Capital group has almost three decades of experience and has established position in “Debt Capital Market” in India. The company with its sourcing, underwriting and distributing capabilities for private sector and public sector has established strong relationships with leading Indian Corporates, Banks, FIs, Provident Funds, Insurance companies and various fund houses. Mr. A K Mittal (MD & CEO) has more than 30 year of experience in industry. The management of the company comprises well qualified and experienced professionals in the financial services debt capital market. 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 value of ~Rs.10,48,039 Crores. A K Capital Services Limited during the previous ten years has managed 1487 assignments representing strong market share. A.K Capital has also managed 87 assignments aggregating to Rs 1,15,849 crore corresponding to a market share of 56% during H1FY20 for the country's premier public as well as private sector companies.

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 is into dealing with fixed income instruments and also lending activities. A K Stockmart Private Limited (100% subsidiary of AK Capital Services Ltd.) does broking activities and also third party product distribution for the group. It provides broking services in the wholesale debt market (WDM), retail debt market (RDM) and also acts as a depository participant.

Sound asset quality: The groups fund based business carried out through AKCFL uniquely operates like a Debt Capital Market (DCM) NBFC and follows low risk model with customized debt solutions in the form of Loans & Fixed Income Instruments spread over short to medium term. They have laid out stringent risk management policies to take care of asset quality issues having NIL NPA and delinquency since inception till date.

Comfortable capital position: AKCFL has maintained its capital adequacy ratio of more than 20% during the last three year. As on 31 March 2019, CRAR of the company stood at 24.67% as against 25.97% in FY18. Total debt /Tangible Net Worth ratio stable at ~3 to 3.5 times during the past couple of years.

Credit Risks:

Top line is subject to the volatility in demand in the debt capital market.: Group’s business activities in the debt capital markets are exposed to economic cyclicalities, macroeconomic indicators. i.e.



movement in the interest rate, GDP growth and inflation etc., wherein any adverse movement in either of these factors will result in volatility in business performance considering that its income depends on the activity in the debt market issuances and distribution of the same to its clients. i.e. Treasuries, Mutual Funds, Provident funds, Insurance companies, HNI's, FPI's, etc.

High proportion of corporate loan book - Group currently has a mix of corporate loan portfolio and investment in better rated debt instruments ("A" & above rated). The structured loan book constitutes around 40 % of the total fund based exposure of the group. Any further increase in structured loans to corporates and/or vulnerability of the structured loans to economic cycles and its resultant impact on asset quality will remain a key monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at the ratings, BWR has combined the business and financial risk profiles of A K Capital group companies which mainly comprise of 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 (part of A.K. Capital group), have significant financial and operational linkages.

RATING SENSITIVITIES

Positive: The rating outlook may be revised to 'Positive' in case of significant improvement in financial risk profile.

Negative: The rating outlook may be revised to 'Negative' if there is dip in profitability or deterioration in asset quality or substantial increase in exposure to structure loan to corporate.

LIQUIDITY INDICATORS: ADEQUATE

The group on a consolidated level has liquid investment of Rs 31.84 Crs in G Sec and Rs 69.54 Crs of cash and bank balance as on 31 December 2019 against the repayment obligation of less than ~ Rs 65 Crs in next 6 months.

COMPANY'S PROFILE

A.K Capital Finance Limited ("AKCFL"), formerly known as A K Capital Finance Private Limited and Giridhar Vanijya Private Limited, was incorporated in the year 2006 and was acquired by A K Capital Services Limited, flagship company of A K Capital Group. A K Capital Finance Limited is registered



with RBI as Non Deposit Systemically Important Non Banking Finance Company (“ND-SI-NBFC”). It is 98.73 % subsidiary of AKCSL which is Category I Merchant Banker, listed on the Bombay Stock Exchange (BSE). AKCSL one of the leading players in the Corporate Bond and Fixed Income Market in India.

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

The total Asset under management (AUM) of AKCFL, comprises of core lending/loan book & Treasury Investments. The company earns a stable interest income from its core lending business, while majority of the Treasury investments are made with firm buying commitments from debt market investors to be executed over a short period of time, thereby mitigating the market price volatility. It is having CBLO (Collateralized borrowings and lending obligation) membership given by the Clearing Corporation of India Limited (CCIL), and is also a qualified institutional buyer.

KEY FINANCIAL INDICATORS : A K Capital Finance Limited (Standalone)

Key Parameters	Units	2018	2019
Result Type		Audited IGAAP	Audited IND AS
Revenue from Operation	₹ Cr	191.21	224.33
Net Income from Operation	₹ Cr	86.76	88.72
PAT	₹ Cr	40.41	45.97
TNW	₹ Cr	507.05	543.58
AUM	₹ Cr	2085.54	2297.33
GNPA	%	Nil	Nil
NNPA	%	Nil	Nil
Total CRAR	%	25.97%	24.67%
Debt to Equity (incl. CBLO & Repo Borrowings)	Times	3.27	3.27
Debt to Equity (excl. CBLO & Repo Borrowings)	Times	3.05	3.05

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

Key Financial Indicators	Units	FY2018	FY2019
Result Type		Audited IGAAP	Audited IND AS
Total Income	Rs in Crs	331.76	421.67
PAT	Rs in Crs	61.85	71.96
Tangible Net Worth	Rs in Crs	573.35	626.63
Total Debt /TNW (Including CBLO)	Times	3.29	2.99

RATING HISTORY FOR THE PREVIOUS THREE YEARS

S.N	Facilities/ Instruments	Current Rating (2020)			Rating History		
		Type	Amount (Crs)	Rating	2019	2018	2017
1	Fund Based	Long Term	885	BWR AA- (Stable)	BWR AA- (Stable)	BWR AA- (Stable)	BWR AA- (Stable)
2	NCD	Long Term	200	BWR AA+ (SO)	BWR AA+ (SO)	BWR AA+ (SO)	-
3	NCD		150	(Stable)	(Stable)	(Stable)	BWR AA (SO) (Stable)
4	NCD		100	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	-
5	NCD		50				BWR AA (SO) (Stable)
6	NCD		100				BWR AA (SO) (Stable)
Total			1485	₹ INR Fourteen Hundred Eighty Five Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Structured Obligation Ratings](#)

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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/WCDL	275	-	275
2	Bank of Baroda	Term Loan	156.25	-	156.25
3	Union Bank of India	Term Loan	133.33	-	133.33
4	Punjab National Bank	CC	100	-	100
5	South Indian Bank	CCBF/LOC	50	-	50
6	Bank of Maharashtra	CC/OD/WCDL	75	-	75
7	Bank of Maharashtra	Term Loan	15.57	-	15.57
7	Federal Bank	Term Loan	4.69	-	4.69
8	Karur Vysya Bank	CC/WCDL	50	-	50
9	Karur Vysya Bank	Term Loan	25	-	25
Total Rupees Eight Hundred Eighty Five Crores only					885

* The facilities are as on 31 December 2019.

ANNEXURE II Series Wise NCD Details

Series	Coupon Rate	Issue Amount (Rs. Crs)	Deemed date of Allotment	Maturity Date	ISIN	Ratings
Series A - I	9.60%	23.60	07-Mar-17	07-Mar-22	INE197P07011	BWR AA(SO)
Series B - I	9.60%	25	07-Mar-17	07-Mar-24	INE197P07029	BWR AA(SO)
Series B - II	9.70%	5	07-Mar-17	07-Mar-27	INE197P07037	BWR AA(SO)
Series A - II	9.60%	0.10	09-Mar-17	09-Mar-22	INE197P07045	BWR AA(SO)
Series B - III	9.60%	26	09-Mar-17	09-Mar-24	INE197P07052	BWR AA(SO)
Series B - IV	9.40%	20	09-Mar-17	09-Sep-21	INE197P07060	BWR AA(SO)
Series A - III	9.60%	3	20-Mar-17	20-Mar-22	INE197P07078	BWR AA(SO)
Series B - V	9.50%	2	20-Mar-17	20-Mar-22	INE197P07086	BWR AA(SO)
Series B - VI	9.60%	5	20-Mar-17	20-Mar-24	INE197P07094	BWR AA(SO)
Series B - VII	9.60%	15	21-Mar-17	21-Mar-24	INE197P07102	BWR AA(SO)
Series E - I	9.50%	5	23-Jun-17	23-Jun-27	INE197P07128	BWR AA+(SO)
Series E- II	9.00%	64.52	10-Aug-17	10-Aug-24	INE197P07144	BWR AA+(SO)
Series G	8.80%	5	09-Nov-17	09-Nov-22	INE197P07151	BWR AA+(SO)
Series H	9.40%	75	06-Dec-17	06-Dec-24	INE197P07169	BWR AA+(SO)
Series I	9.40%	50	03-Apr-18	03-Apr-23	INE197P07177	BWR AA(SO)
Series J	9.20%	32	08-May-18	08-Nov-21	INE197P07185	BWR AA(SO)
Series K	9.75%	71	28-Jun-18	28-Jun-25	INE197P07193	BWR AA+(SO)
Series L	9.75%	25	29-Jun-18	29-Jun-23	INE197P07201	BWR AA+(SO)
Series M	9.60%	5	28-Aug-18	28-Aug-23	INE197P07219	BWR AA+(SO)
Series N	9.95%	35	18-Sep-18	18-Sep-25	INE197P07227	BWR AA+(SO)
Series O	9.50%	15	25-Sep-18	25-Mar-22	INE197P07235	BWR AA+(SO)
Total	-	507.22				

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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