



## Rating Rationale

A K Capital Finance Pvt. Ltd.

6 Jun 2018

Brickwork Ratings assigns Rating to the proposed NCD issue of Rs.200 Cr and reviews the rating of existing instruments of A K Capital Finance Pvt. Ltd.

### Particulars

Instrument	Amount (Rs. Crs)	Tenor	Rating Assigned*
NCD	200 (Rupees Two Hundred Crore Only)	Long Term	BWR AA+ (SO) (Pronounced as Double A Plus (Structured Obligation)) (Outlook:Stable)
<b>Total</b>	<b>Rs. 200 Cr (Rupees Two Hundred Crore Only)</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### Other outstanding NCD ratings of A K Capital Finance Pvt. Ltd which are Reviewed are:

Natures of Instrument	Previous Amount (Rs. Crore)	Outstanding Amount (Rs. Cr)	Tenure	Series	Previous Rating (Feb 2018)	Rating Based on Current Review
NCD	100	67	Long Term	J,I	BWR AA (SO) (Stable)	BWR AA (SO) (Stable) (Reaffirmation)
NCD	250	250	Long Term	E,F,G,H	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable) (Reaffirmation)
NCD	50	235	Long Term	A,B &C	BWR AA (SO) (Stable)	BWR AA (SO) (Stable) (Reaffirmation)
NCD	200		Long Term		BWR AA (SO) (Stable)	BWR AA (SO) (Stable) (Reaffirmation)

These NCDs are issued in different series with different ISINs, and the details are provided in Annexure I.



**Other Outstanding Bank Loan Rating which are reaffirmed are as follows:**

Facility	Previous Limits	Limits	Tenure	Previous Rating (Feb 2018)	Rating based on current review
Fund Based - Rupee Term Loan / Cash Credit	200	350	Long Term	BWR AA- (Pronounced as BWR A minus) Outlook - Stable	BWR AA- (Pronounced as BWR A minus) Outlook – Stable (Reaffirmation)
Proposed Fund based limits	300	150			
<b>Total</b>	<b>500.00</b>	<b>500.00 (Five Hundred Crore Only)</b>			

**Rationale / Description of Key rating drivers / Rating Sensitivities:**

BWR has essentially relied upon the audited financial results of the Company up to FY18, draft term sheet of the proposed issue, publicly available information and information/clarifications provided by the company.

The rating has factored, *inter alia*, long track record of the parent – A K Capital Services Ltd. (AKCSL) as a Merchant Banker in the debt market segment, experienced management, low risk model with customized debt solutions in the form of Loans & Fixed Income Instruments spread over short to medium term, Investments in highly rated/ liquid securities, high asset quality as reflected by Nil NPA and delinquency since inception and continued for more than 3 years and improved Net worth.

The rating is, however, constrained by volatility in demand/yield in debt capital market, and increase in corporate loan portfolio, as against corporate investments previously.

**Analytical Approach:**

The rating of the proposed NCD issue of AKCFPL is based on the credit enhancement derived from terms of the issue. Rating of other NCDs of the company which are reaffirmed also derives credit enhancement based on the structure of the respective issues. The Rating for Bank Loan facilities of AKCFPL represents the stand-alone rating of the company.

**Structure of the proposed NCD:** The proposed NCD of Rs. 200 Cr is structured whereby a DSRA balance to be maintained at a minimum 20% of the outstanding principal amount. DSRA needs to be maintained in the form of bank fixed deposit, “AAA” rated debt securities, sovereign debt securities, or



bank guarantee, in any combination, for the duration minimum covering the tenor of the NCDs. For details about the structure of the existing NCDs, kindly refer to [rating rationale dated February 7, 2018](#).

#### **Credit Risk Analysis:**

- **Low Risk model:** The company uniquely operates like a Debt Capital Market (DCM) NBFC and follows , low risk model with customized debt solutions in 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; the present portfolio has Nil NPA and delinquency since more than 3 years.
- **Liquidity:** The company has exhibited strong underwriting, structuring and deal selection capabilities thereby able to create customized debt products. A major portion of the company's lending book is in form of marketable instruments which, if required, can be liquidated in shortest possible time.
- **Capital Infusion:** The Net worth of the company as on 31.03.2018 is Rs. 507.14 crores. The promoters have infused Equity in the form of Compulsorily Convertible Preference Shares (CCPS) to the tune of approx. Rs. 65 crs in H1 FY 2018. Their CRAR as on 31<sup>st</sup> March 2018 was at 25.97%.
- **Topline subject to volatility in demand:** The rating is however, constrained by subjectivity of the top line to the volatility in demand in the debt capital market. However, the company is focusing to grow its AUM , in a manner, to bring the projected mix of structured loans and fixed income marketable instruments to 50:50.

#### **Rating Outlook:**

BWR believes AKCFPL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. Any major volatility in profitability or deterioration in asset quality with impact on capitalization may lead to revision in the rating or the outlook.

#### **Background:**

A. K. Capital Finance Private Limited (AKCFPL), formerly known as Girdhar Vanijya Private Limited, was incorporated in 2006 and was acquired by A. K. Capital Services Limited (AKCSL), flagship company of A. K. Capital Group, in 2008. AKCFPL is registered with RBI as Non Deposit Systemically Important Non-Banking Finance Company ("ND-SI-NBFC").

It is a 98.73%- subsidiary of AKCSL, which is a listed company. AKCFPL 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 Investment book. While there is synergy between the activities of AKCSL and AKCFPL, all lending & Investment decisions of AKCFPL, are independent of its Parent's activities and carried out on an arm's length basis. Such lending & Investment decisions are based on AKCFPL's own yield/return benchmark.

The Total (Asset Under Management) AUM of AKCFPL comprises of Core lending /Loan Book & Treasury Investments. The Company earns a stable interest income from its Core lending / Loan Book, while majority of the Treasury Investments are made with firm buying commitments from debt market Investors to be executed over short period of time, thereby mitigating the market price volatility. It is having CBLO (Collateralized Borrowing and Lending Obligation) membership given by The Clearing Corporation of India Limited (CCIL), and is also a Qualified Institutional Buyer.

#### Company Financial Performance

Rs. CR (Audited)	FY16	FY17	FY18
Revenue from Operation	118.48	153.62	191.21
Net Income from Operations	48.78	70.56	86.44
PAT	21.59	31.09	40.41
TNW	353.45	406.08	507.14
AUM	1452.37	1987.84	2085.54
GNPA (%)	Nil	Nil	Nil
NNPA (%)	Nil	Nil	Nil
Total CRAR (%)	36.51%	34.24%	25.97%
Debt to Equity	3.40	4.04	3.27

#### Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2018)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	Dec 7, 2017	Date in 2016	Date in 2015
1.	NCD	Long Term	200	BWR AA+ (SO) (Stable)			
2.	NCD	Long Term	100	BWR AA (SO) (Stable)	-		

3.	Term Loans	Long Term	50.00	BWR AA- (Stable)	BWR AA- (Stable)	-	-
4.	Cash Credit	Long Term	150.00	BWR AA- (Stable)	BWR AA- (Stable)	-	-
5.	Proposed Fund Based Facilities	Long Term	300.00	BWR AA- (Stable)	BWR AA- (Stable)		
6.	NCD	Long Term	250.00	BWR AA+ (SO) (Stable)	BWR AA (SO) (Stable)		
7.	NCD	Long Term	50.00	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)		
8.	NCD	Long Term	200.00	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)		
<b>Total</b>			<b>1300.00</b>				

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Structured Obligation Rating](#)

For any other criteria obtain hyperlinks from website



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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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**Annexure I**

Series	Coupon Rate	Issue Amount (Rs. Crs)	Deemed date of Allotment	Maturity Date	ISIN	Ratings
Series A - I	9.60%	30.00	7-Mar-17	7-Mar-22	INE197P07011	BWR AA(SO)
Series B - I	9.60%	25.00	7-Mar-17	7-Mar-24	INE197P07029	BWR AA(SO)
Series B - II	9.70%	5.00	7-Mar-17	7-Mar-27	INE197P07037	BWR AA(SO)
Series A - II	9.60%	4.00	9-Mar-17	9-Mar-22	INE197P07045	BWR AA(SO)
Series B - III	9.60%	26.00	9-Mar-17	9-Mar-24	INE197P07052	BWR AA(SO)
Series B - IV	9.40%	20.00	9-Mar-17	9-Sep-21	INE197P07060	BWR AA(SO)
Series A - III	9.60%	3.00	20-Mar-17	20-Mar-22	INE197P07078	BWR AA(SO)
Series B - V	9.50%	2.00	20-Mar-17	20-Mar-22	INE197P07086	BWR AA(SO)
Series B - VI	9.60%	5.00	20-Mar-17	20-Mar-24	INE197P07094	BWR AA(SO)
Series B - VII	9.60%	15.00	21-Mar-17	21-Mar-24	INE197P07102	BWR AA(SO)
Series C	9.55%	100.00	24-Mar-17	14-Apr-22	INE197P07110	BWR AA(SO)
Series E - I	9.50%	5.00	23-Jun-17	23-Jun-27	INE197P07128	BWR AA+(SO)
Series E - II	9.00%	65.00	10-Aug-17	10-Aug-24	INE197P07144	BWR AA+(SO)
Series F	9.02%	100.00	7-Jul-17	7-Jul-22	INE197P07136	BWR AA+(SO)
Series G	8.80%	5.00	9-Nov-17	9-Nov-22	INE197P07151	BWR AA+(SO)
Series H	9.40%	75.00	6-Dec-17	6-Dec-24	INE197P07169	BWR AA+(SO)
Series I	9.40%	50.00	3-Apr-18	3-Apr-23	INE197P07177	BWR AA(SO)
Series J	9.20%	17.00	8-May-18	8-Nov-21	INE197P07185	BWR AA(SO)