



## Rating Rationale

### A. K. Capital Finance Private Limited

1 June 2017

Brickwork Ratings assigns the rating for the Proposed Long Term Secured Non-Convertible Debenture issue up to ₹ 250 Crores and Reaffirms the existing rating for Secured NCD issues up to ₹ 250 Crores of A. K. Capital Finance Private Limited ('AKCFPL' or the Company)

### Rating Assigned

Facility	Amount (₹ Cr)	Tenor	Rating Assigned
Proposed Secured NCD <sup>1</sup>	250	Long Term	<b>BWR AA (SO)</b> Outlook: Stable

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

### Other outstanding rating reviewed

Facility <sup>#</sup>	Amount (₹ Cr)	Tenor	Rating History (March 2017)	Rating
Secured NCD <sup>2</sup>	50	Long Term	<b>BWR AA (SO)</b> Outlook: Stable	<b>BWR AA (SO)</b> Outlook: Stable <i>(Reaffirmed)</i>
Secured NCD <sup>2</sup>	200	Long Term	<b>BWR AA (SO)</b> Outlook: Stable	<b>BWR AA (SO)</b> Outlook: Stable <i>(Reaffirmed)</i>

Note:1 & 2: Details of the security structure for these issues are provided below

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results of the Company up to FY17, projections, publicly available information, and information/clarifications provided by the Company's management.

The rating has factored, *inter alia*, the credit enhancement in the form of DSRA support for the proposed NCD which forms the basis for 'Structural Obligations' suffix. The rating has also



taken comfort from AKCFPL being an A. K. Capital Group Company, the experienced & professional management, Group's long track record as a merchant banker in the debt market, adequate capitalization, low risk-return model of investing in Fixed income instruments, adequate asset cover for its lending business and Nil delinquency. The rating is however, constrained by the concentrated dependence of its revenue on the overall demand in the debt capital market and competitive landscape for merchant banking activity, in general. Monitoring of the underlying instruments, strictly as per the draft term sheet, is a key rating sensitivity.

### **Rating Outlook: Stable**

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, significant reduction in capitalization levels, or inability to manage the risk associated with volatility of demand in the debt capital market may lead to revision in the rating or the outlook.

### **About the Company**

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) in 2008. AKCFPL is registered with RBI as Non-Deposit taking Systemically Important Non-Banking Finance Company ("ND-SI-NBFC"). It is a 98.73% subsidiary of Group's flagship company AKCSL. AKCFPL draws substantial financial and operational support from the Group's flagship company AKCSL. Mr. A K Mittal is the Managing Director of AKCFPL and is also on the Board of AKCSL.

AKCFPL primarily operates a hybrid business model, under which the revenue streams comprise of a continual & stable Interest Income from its Loan book, Fees Income and Treasury based Income from its Investment book. AUM of the Company increased from ₹ 1,452 Crores as of March 31, 2016 to ₹ 1,983 Crores as of March 31, 2017 of which ₹ 820 Crores were in the form of lending and the rest as treasury investments. The Company has reported Nil delinquency over the last three Financial years. Fresh capital of ₹ 21.50 Crores was infused in FY17 from the existing promoters. Its capital adequacy in the form of CRAR stood at 34.24% as of March 31, 2017 which is well above the RBI's minimum stipulated requirement of 15%. Company's Tier I



CRAR stood at 34.14%. It has a comfortable liquidity position both in the short and the long term. The company is having access to Collateralized Borrowing and Lending Obligations (CBLO) which enables the company to access fund on tap against pledge of SLR securities like G-Secs at very competitive cost.

### **<sup>1</sup> Structure of the Existing NCDs**

A reference may please be made to our Publication dated March 24, 2017

### **<sup>2</sup> Structure of the Proposed NCD**

- It is a secured Non-Convertible Debenture with a tenor up to 10 years
- The Company shall maintain minimum 20 % of the NCD principal amount outstanding, in a separate Debt Service Reserve Account (DSRA), in the form of bank fixed deposit, “AAA” rated liquid bonds or bank guarantee, in any combination, for the duration minimum covering the tenor of the NCDs. The DSRA would be maintained at all times during the tenure of the NCDs
- In addition to the DSRA, the outstanding NCD amount (including one interest instalment) shall be secured at all times during the tenure of such NCDs by:  
First Charge over identified ‘Business assets’ (i.e. Investments/Receivables) which are standard in nature, of the Company (“Primary Security”)
- Asset Cover of Primary Security: The Issuer would maintain a minimum asset cover of 1.05 times at all times during the currency of the NCDs

### **Company’s Financial Performance**

As per audited financials, Total Income from Operations for the Company stood at ₹ 153.62 Crores for FY17 compared to ₹ 118.48 Crores for FY16, a y-o-y growth of ~30%, while Net Income from Operations (Total Income from Operations net of Interest Expenses) increased from ₹ 48.77 Crores for FY16 to ₹ 70.56 Crores for FY17. PAT stood at ₹ 31.09 Crores compared to ₹ 21.60 Crores.

### Rating History for the last three years:

Sl. No.	Instrument/ Facility	Current Rating (Year 2017)			Rating History			
					2017		2016	2015
					24-Mar-2017	01-Mar-2017		
1	Secured NCD	Long Term	250	BWR AA (SO) Outlook: Stable	NA	NA	NA	NA
2	Secured NCD	Long Term	50	BWR AA (SO) Outlook: Stable	BWR AA (SO) Outlook: Stable	NA	NA	NA
3	Secured NCD	Long Term	200	BWR AA (SO) Outlook: Stable	BWR AA (SO) Outlook: Stable	BWR AA (SO) Outlook: Stable	NA	NA

### Instrument Details

Instrument	Issue Date	Amount (₹ Cr)	Coupon	Maturity Date	ISIN Particulars	Rating
Secured Rated Listed Non-Convertible Debentures	07-Mar-2017	30.00	9.60%	07-Mar-2022	INE197P07011	<b>BWR AA (SO)</b> Outlook: Stable
	07-Mar-2017	25.00	9.60%	07-Mar-2024	INE197P07029	
	07-Mar-2017	5.00	9.70%	07-Mar-2027	INE197P07037	
	09-Mar-2017	4.00	9.60%	09-Mar-2022	INE197P07045	
	09-Mar-2017	26.00	9.60%	09-Mar-2024	INE197P07052	
	09-Mar-2017	20.00	9.40%	09-Sep-2021	INE197P07060	
	20-Mar-2017	3.00	9.60%	20-Mar-2022	INE197P07078	
	20-Mar-2017	2.00	9.50%	20-Mar-2022	INE197P07086	
	20-Mar-2017	5.00	9.60%	20-Mar-2024	INE197P07094	
	21-Mar-2017	15.00	9.60%	21-Mar-2024	INE197P07102	
	24-Mar-2017	100.00	9.55%	14-Apr-2022	INE197P07110	
			<b>235.00</b>			

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Structured Obligation \(SO\) Instruments](#)
- [Group Support](#)

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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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