

Rating Rationale

A. K. Capital Finance Private Limited

24 March, 2017

Brickwork Ratings assigns the rating for the Proposed Long Term Secured Non-Convertible Debenture issue up to ₹ 50 Crores and reaffirms the existing rating for Secured NCD issue up to ₹ 200 Crores of A. K. Capital Finance Private Limited ('AKCFPL' or the Company)

Rating Assigned

Facility	Amount (₹ Cr)	Tenor	Rating*
Proposed Secured NCD	50	Long Term	BWR AA (SO) Outlook: Stable <i>(Assigned)</i>

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

Other outstanding rating reviewed

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

details of this issue 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 FY16, 9MFY17 provisional financials, projected financials, 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 specific underlying liquid securities 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 of underlying securities, significant reduction in capitalization levels, or inability to manage the risk associated with volatility of 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 Systemic Non-Banking Finance Company ("ND-SI-NBFC"). It is a 98.65% 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 ₹ 856 Crores as of March 31, 2015 to ₹ 1,452 Crores as of March 31, 2016 and was ₹ 1,415 Crores as of December 31, 2016 of which ₹ 741 Crores were in the form of loans to corporates and the rest as treasury investments. The Company has reported Nil delinquency over the last three Financial years. Its capital adequacy in the form of CRAR stood at 40.10% as of December 31, 2016 which is well above the RBI's minimum stipulated requirement of 15%. Company's Tier I CRAR stood at 39.95%. The Company has a comfortable liquidity position both in the short and the long term. The company is one of the NBFCs 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.

Structure of the Proposed NCD

It is a secured Non-Convertible Debenture with a tenor up to 10 years

The outstanding NCD amount shall be secured at all times during the tenure of such NCDs by first charge over specific identified Investments/Receivables (i.e. Business assets) of the Company (“Primary Security”)

- Primary Security shall be in the following ratio of Bucket I and Bucket II:

Bucket I

Minimum 60% of the Primary security, of which not less than 40% with credit rating category of “AA” & above and balance up to 20% with credit rating category of “A” & above issued by Central PSUs, PSU Banks, State PSUs & Urban Local bodies, including Municipal Bonds.

Bucket II

Not more than 40 % of the Primary security with credit rating category of “A”.

- No Single Primary Security would be more than 20 % of the Total 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 ₹ 118.48 Crores for FY16 compared to ₹ 104.04 Crores for FY15, a y-o-y growth of ~14%, while Net Income from Operations (Total Income from Operations net of Interest Expenses) increased from ₹ 45.75 Crores for FY15 to ₹ 48.77 Crores for FY16 to, a y-o-y growth of ~7%. PAT stood at ₹ 21.60 Crores compared to ₹ 21.07 Crores.

As per unaudited financials up to December 31, 2016, AKCFPL reported Total Income from Operations of ₹ 122.78 Crores with PAT of ₹ 23.41 Crores.

Rating History for the last three years:

Sl. No.	Instrument/Facility			Current Rating (Year 2017)	Rating History		
					2016	2015	2014
1	Proposed Secured NCD	Long Term	50	BWR AA (SO) Outlook: Stable (Assigned)	NA	NA	NA
2.	Secured NCD	Long Term	200	BWR AA (SO) Outlook: Stable (Reaffirmed)	NA	NA	NA

Instrument Details

Instrument	Issue Date	Amount (₹ Cr)	Coupon	Maturity Date	ISIN Particulars	Rating
Secured Rated Listed Non-Convertible Debentures	09-Mar-2017	20.00	9.40%	09-Sep-2021	INE197P07060	BWR AA (SO) Outlook: Stable
	07-Mar-2017	30.00	9.60%	07-Mar-2022	INE197P07011	
	09-Mar-2017	4.00	9.60%	09-Mar-2022	INE197P07045	
	07-Mar-2017	25.00	9.60%	07-Mar-2024	INE197P07029	
	09-Mar-2017	26.00	9.60%	09-Mar-2024	INE197P07052	
	07-Mar-2017	5.00	9.70%	07-Mar-2027	INE197P07037	
			110.00			

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 Investors queries can be sent to 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.

DISCLAIMER

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