

## RATING RATIONALE

1 Sept 2020

### A. K. Stockmart Private Limited

#### Brickwork Ratings reaffirms 'BWR A'/Stable for the Bank Loan Facilities of A. K. Stockmart Private Limited

#### Particulars

Facilities**	Amount (Rs.Crs)		Tenure	Rating*	
	Previous	Present		Previous (Jan, 2020)	Present @
Bank Loan Fund Based	100.00	100.00	Long Term	BWR A (Stable)	BWR A (Stable) (Reaffirmed)
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>Rupees One Hundred crores Only</b>		

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

\*\* Details of bank facilities/NCD/bonds/commercial paper are provided in Annexure-I&II

#### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed 'BWR A' /Stable for the bank loan facilities of A. K. Stockmart Private Limited (AKSPL or the company), as tabulated above. The ratings factor in the experienced management, long track record of the group and strategic importance of AKSPL to the A.K. capital group. However, the ratings are constrained by limited scale of operation, intense competition in broking space and the inherent volatility in the debt capital markets business.

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

#### ANALYTICAL APPROACH

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, 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 (a part of the A.K. Capital group), have significant financial, managerial and operational linkages.

#### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

## KEY RATING DRIVERS

### Credit Strengths:

- **Long track record of the group:** 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. 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 FY 2019-20, 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 FY 20.
- **Strategic importance of AKSPL to the group:** A.K. Stockmart is of strategic importance to the A.K. Capital group, as the position AKSPL in the fixed income market mainly due to its distribution network and capability. AKSPL is a specialist in distribution of third-party fixed income products i.e. corporate bonds, NCDs, etc. Over the past five year the company has managed more than 50+ public debt issues by mobilising more than Rs. 45,000+ Crs.
- **Experienced management:** AKSPL headed by Ms. Aditi Mittal (daughter of Mr. A. K. Mittal) a qualified chartered accountant having over 10 years' experience in financial services. She is looking after day to day affairs of the company with the help of experience professionals including Mr. Ankit Gupta, director. Mr. Ankit Gupta has been engaged with the company since inception. Both are supported by a dedicated work force of 250+ professionals employed with A.K. group companies.

### Credit Risks:

- **Limited scale of operations:** AKSPL has relatively small balance sheet size (Rs. 31.83 Crs in FY20 Vs Rs. 55.15 Crs in FY19) and business operation as compared to other entities in A.K. Capital group. It has a tangible networth of Rs. 24.09 Crs as on 31 March 2020 against Rs. 22.85 Crs as on 31 March 2019. Company's operation is largely dependent on the parent's business which drives the income and profitability as AKSPL acts as distribution arm for the group. The total income of AKSPL Rs. 62.16 Crs and profit after tax of Rs. 1.38 Crs in FY20 against total income of Rs. 104.33 Crs and profit after tax of Rs. 1.94 Crs in FY19.
- **Inherent volatility in debt capital markets business:** The A.K. Capital group's business activities in debt capital markets are exposed to economic cyclicality 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. 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.

## **RATING SENSITIVITIES**

**Positive:** A significant improvement in the financial risk profile and market share of the group, including a substantial increase in revenue and profitability while maintaining asset quality, will be rating positive. Improvement in broking volumes and financial risk profile of AKSPL.

**Negative:** A significant deterioration in business volumes, asset quality or earning profile of the group will be rating negative. Also, reduction in strategic importance of AKSPL to the group or dip in shareholding below majority are also key rating monitorables.

**Coronavirus disease (COVID-19)**, declared a pandemic by the World Health Organisation (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 as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period 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.

## **LIQUIDITY INDICATORS: ADEQUATE**

As on 26 August 2020, on a consolidated level, the group had liquidity of Rs. 380.59 Crs, i.e., liquid investments of Rs 325.66 Crs, and cash and cash equivalent of Rs. 54.93 Crs, against a debt obligation of Rs. 219.28 Crs (this is excluding CC/OD/Car loan /Housing loan) payable from 1 September 2020 to 31 March 2021. The group also has undisbursed sanctions of Rs. 918.00 Crs as on date.

## **COMPANY PROFILE**

A. K. Stockmart Private Limited (A. K. Stockmart) was incorporated in January 2006 as stock broking entity and is a wholly owned subsidiary of A K Capital Services Limited, a flagship company of A K Group. The company is in the business of offering debt broking in the wholesale debt market (WDM) and third-party fixed-income products distribution, viz., corporate bonds and NCDs and also acts as a depository participant. A. K. Stockmart is registered as trading and clearing member of both the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange of India Ltd. (BSE).

A. K Capital Services Limited (AKCSL), incorporated in 1993 is a SEBI-registered category-I merchant banker, listed on the BSE. AKCSL is the flagship company of A.K. Capital Group and one of the leading players in the corporate bond and fixed income market in India. The company has pioneered its position in the debt market private placement, public

issues and financial advisory services. The company offers customised solutions to its clients, i.e. issuers by mobilising funds through debt capital market and investors by creating avenues for investment in the debt capital market.

**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. Stockmart Private Limited (Standalone)**

Key Financial Indicators	Units	FY 19	FY20
Result Type		Audited	Audited
Total Income	Rs.in Crs	104.33	62.16
Profit after tax	Rs.in Crs	1.94	1.38
Tangible Networkth	Rs.in Crs	22.85	24.09
Total Debt	Rs in Crs	24.98	0.00
Debt to Tangible Networkth	Times	1.09	Nil

**KEY FINANCIAL INDICATORS – A K Capital Services Limited (Consolidated)**

Key Financial Indicators	Units	FY19	FY20	Q1FY21
Result Type		Audited	Audited	UnAudited
Total Income	Rs in Crs	421.67	314.21	57.09
Profit After tax	Rs in Crs	71.96	51.48	13.68
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	-

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY :NA**

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

Instrument / Facilities	Current Rating (August 2020)			Rating History			
	Tenure (Long Term/ Short Term)	Amount Rs. Crs	Rating	29 Jan 20	30 Mar 19	18 Dec 18	22 Sep 17
Fund Based	Long Term	100.00	BWR A (Stable) (Reaffirmed)	BWR A (Stable) (Assigned)			
<b>Total</b>		<b>100.00</b>					

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://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. Stockmart Private 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 Maharashtra	CC/WCDL	100	-	100.00
<b>Total</b>					<b>100.00</b>

**Total Rs. One Hundred Crs. only.**

\* The facilities are as on 31 July 2020

**ANNEXURE II  
INSTRUMENT (NCD/Bonds) DETAILS: NA**

**ANNEXURE III**

**List of entities consolidated**

<b>Name of Entity</b>	<b>% ownership</b>	<b>Extent of consolidation</b>	<b>Rationale for consolidation</b>
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

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**About Brickwork Ratings** : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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