

## RATING RATIONALE

18 Oct 2022

### A. K. Capital Finance Limited

Brickwork Ratings assigns ratings for the proposed bank loan facilities of Rs. 400 Crs of A. K. Capital Finance Ltd. The ratings for the existing bank loan facilities amounting to Rs. 450 Crs were reaffirmed and withdrawn.

#### Particulars:

#### Rating Assigned:

Instrument / Facilities**	Amount (Rs. Crs)	Tenure	Rating* <sup>@</sup>
Fund based bank loans : CC/OD/ WCDL/TL (Proposed)	400.00	Long Term	BWR AA-/Stable (Assigned)
<b>Total</b>	<b>400.00</b>	<b>Rupees Four Hundred Crores Only</b>	

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

\*\* Details of Loan facilities is provided in Annexure-I

@This rating pertains to an existing assignment received prior to 6 October 2022.

Brickwork Ratings (BWR) has assigned the ratings of 'BWR AA-' /Stable for the proposed bank loan facilities of A. K. Capital Finance Limited (AKCFL or the company), as tabulated above.

#### Rating Withdrawn: (existing lenders)

Instrument / Facilities**	Amount (Rs. Crs)		Tenure	Rating* <sup>@</sup>	
	Previous	Present		Previous 16 Sep 2021	Present
Fund based bank loans: CC/OD/ WCDL/TL (Existing)	450.00	450.00	Long Term	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed and Withdrawn)
<b>Total</b>	<b>450.00</b>	<b>450.00</b>	<b>Rupees Four Hundred Fifty Crores Only</b>		

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

\*\* Details of Loan facilities is provided in Annexure-II

@This rating pertains to an existing assignment received prior to 6 October 2022.

Brickwork Ratings has reaffirmed and withdrawn the ratings of the existing bank loan facilities amounting to Rs. 450 Crs of the company, at the request of the company and no objection from the lenders for the aforesaid facilities. The Withdrawal of rating is in line with BWR policy for Withdrawal of Rating

### Rating Reaffirmed

Instrument / Facilities**	Amount (Rs. Crs)		Tenure	Rating* @	
	Previous	Present		Previous 16 Sep 2021	Present
NCDs^	280.52	<b>230.52</b>	Long Term	BWR AA+/Stable (Reaffirmed) with removal of the suffix 'CE'	<b>BWR AA+/Stable (Reaffirmed)</b>
NCDs^	126.00	<b>62.00</b>	Long Term	BWR AA/Stable (Reaffirmed) with removal of the suffix 'CE'	<b>BWR AA/Stable (Reaffirmed)</b>
NCDs	625.00	<b>145.00</b>	Long Term	BWR AA- (Stable) (Reaffirmation)	<b>BWR AA-/Stable (Reaffirmed)</b>
<b>Total</b>	1031.52	<b>437.52</b>	<b>Rupees Four Hundred Thirty Seven Crores and Fifty Two Lakhs Only</b>		

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

\*\* Details of Loan facilities is provided in Annexure-III

@This rating pertains to an existing assignment received prior to 6 October 2022.

**^Note:** The removal of the CE suffix was based on the extant regulatory guidelines and BWR Rating Policy under which the Debt Service Reserve Account (DSRA) is considered as an internal credit enhancement instead of as an external credit enhancement. While NCDs aggregating Rs. 230.52 Crs are backed by 20% DSRA support on principal outstanding; with respect to NCDs aggregating Rs. 126 Crs (current o/s Rs.62 crs), NCDs aggregating Rs. 50.00 Crs (since fully paid off) was backed by 15% DSRA support on outstanding principal amount and the remaining NCDs of Rs. 76.00 Crs ( current o/s Rs.62 crs) are backed by primary security of investment in higher rated paper (A rated and above). Due to the credit comfort drawn from the DSRA/primary security, the ratings of NCDs of Rs. 230.52 Crs and Rs. 62 Crs are reaffirmed at AA+ and AA, respectively, without the CE suffix

### RATING ACTION / OUTLOOK

The ratings assignment / reaffirmation factors in the company's experienced management and long track record of the A. K. group, along with sound asset quality in the fund-based business and comfortable capitalisation. However, the ratings are constrained by inherent volatility in the debt capital markets business and the limited scale of financing operations.

The Stable outlook indicates a low likelihood of a rating change over the medium term

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

1. For NCDs aggregating Rs. 230.52 Crs, the company is required to maintain an amount of up to 20% of the principal outstanding in a DSRA throughout the tenure of instruments
2. For NCDs aggregating Rs.126 Crs (O/s Rs. 62 Crs)

- a) Rs. 50.00 Crs (since fully paid), the company is required to maintain an amount of up to 15% of the outstanding principal amount in DSRA.
- b) Further, Rs. 76.00 Crs of NCDs (current o/s Rs. 62 crs) are backed by primary security of investment in higher rated paper (A rated and above).

## KEY RATING DRIVERS

### Credit Strengths:-

- **Experienced management and long track record of business:** The A. K. 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. The management of the group consists of experienced professionals with vast experience in the financial services space. The group, with its sourcing, underwriting and distributing capabilities for the private and public sectors, has established strong relations with its clients.  
A. K. Group is amongst the largest arranger of debt (including Tax Free Bonds & Public Debt Issues) for the Indian Banking Sector in the form of Lower Tier II/ Upper Tier –II / Perpetual etc. Bonds having arranged bonds of Rs. 1,39,910.40 crores in the past 2 decades. A. K. Capital has managed 1837 assignments of private placement of debt aggregating to Rs. 16,74,896.71 Crores (approx.) for the past decade (12 Years) (Source: Prime Database) and is one of the top leading merchant bankers for managing debt public issue in India since inception of retail public issue product. It has managed 113 public issues of debt assignments aggregating to Rs. 1,87,862.60 Crores (Source: Prime Database) for the country's premier public as well as private sector companies).
- **Comfortable capital position:** As on 31 March 2022, the group-level tangible net worth stood at Rs. 783.14 Crs, compared with Rs 706.33 Crs as on 31 March 2021. AKCFL has maintained its capital adequacy ratio of more than 20% during the last three years. As on 31 Mar 2022, the capital-to- risk weighted assets ratio (CRAR) of the company stood at 32.94% (June 2022: 42.84%) against 36.70% as on 31 March 2021. The group's debt to tangible net worth ratio stood at 2.35 times (June 2022: 1.51) as on 31 March 2022, compared with 1.96 times as on 31 March 2021.
- **Sound asset quality:** Group's NBFC Subsidiary A. K. Capital Finance Limited (AKCFL) uniquely operates as a debt capital market (DCM) NBFC and follows a low-risk model with customized debt solutions in the form of loans and fixed-income instruments spread over a short to medium term. The group's stringent risk management policies and demonstrated ability to exit stressed exposures early on has resulted in the company maintaining a robust asset quality. AKCFL has reported nil non-performing assets (NPAs) since inception until date.

### Credit Risks:-

- **Inherent volatility in debt capital markets business:** The A. K. 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. During FY22, the group reported a total income of Rs. 322.89 Crs and profit after tax of Rs. 83.01 Crs, against a total income of Rs. 289.15 Crs and profit after tax of Rs. 75.05 Crs during FY21.

- **Limited scale of financing operations:** The group has a relatively modest size of the AUM (Assets Under Management), consisting of core lending/loan book and treasury investments with a concentrated set of clientele. Most of the treasury investments are opportunity-based and backed by commitments from clients to buy in a short period of time, thereby mitigating market price volatility. The AUM of AKCFL increased to Rs.2007.87 Crs in FY22 and Rs. 1543.58 Crs in Q1FY23, against Rs. 1804.73 Crs during FY21.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at the ratings, BWR has combined the business and financial risk profiles of A. K. 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. group), have significant financial, managerial and operational linkages.

### **RATING SENSITIVITIES**

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

**Negative:** A significant deterioration in business volumes, the asset quality or the earning profile will be rated negative.

### **LIQUIDITY INDICATORS: Adequate**

As on 30 June 2022, at a consolidated level, the Group has adequate liquidity of Rs. 64.17 Crs which includes Rs. 5.87 Crs in cash and cash balances and Rs. 58.30 Crs in liquid investments. Additionally, on a consolidated basis, the Group has undrawn working capital limits of ~Rs. 644.41Crs as on 30 June 2022.

### **COMPANY PROFILE**

A. K. Capital Finance Limited (AKCFL), formerly known as A. K. Capital Finance Private Limited and Giridhar Vanijya Private Limited, was incorporated in 2006 and was acquired by A. K. Capital Services Limited, the flagship company of A. K. Capital Group. A. K. Capital Finance Limited is registered with the RBI as a Non-Deposit taking Systemically Important Non-Banking Finance Company (ND-SI-NBFC). It is a 98.73% subsidiary of AKCSL, a category I merchant banker listed on the Bombay Stock Exchange (BSE). AKCSL is a leading player in the corporate bond and fixed-income market in India. AKCFL primarily operates a

hybrid business model, under which the revenue streams consist of interest income from its lending book, and fee income and treasury-based income from its investment book. While there is synergy between the activities of AKCSL and AKCFL, all the lending and investment decisions of AKCFL are independent of its parent's activities and are carried out on an arm's length basis. Such lending and investment decisions are based on AKCFL's own yield/return benchmark.

A. K Capital Services Limited (AKCSL), incorporated in 1993 is a SEBI-registered category-I merchant banker, listed on the Bombay Stock Exchange (BSE). AKCSL is the flagship company of A. K. group and one of the leading players in the corporate bond and fixed-income market in India. The company is one of the leaders in the debt market segment with respect to private placement and public issues, and financial advisory services. The company offers customized solutions to its clients, i.e. issuers, by mobilizing funds through the debt capital market, and investors, by creating avenues for investment in the debt capital market. A. K. 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 group's NBFC arm. The NBFC invests in fixed-income instruments and also undertakes lending activities. A. K. Stockmart Private Limited (a 100% subsidiary of A. K. 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

### Standalone - A. K. Finance Capital Limited

Key Financial Indicators	Units	FY21	FY22
Result Type		Audited	Audited
Total Income	Rs.Crs	182.47	205.40
Profit after tax	Rs.Crs	50.50	57.43
Tangible Networkth	Rs.Crs	612.72	662.43
Total Debt	Rs.Crs	1245.55	1383.65
Debt to Tangible Networkth	Times	2.03	2.09
GNPA & NNPA	%	-	-
CRAR	%	36.70	32.94

**Consolidated - A. K. Capital Services Limited**

Key Financial Indicators	Units	FY21	FY22
Result Type		Audited	Audited
Total Income	Rs.Crs	289.15	322.89
Profit after tax	Rs.Crs	75.05	83.01
Tangible Networkth	Rs.Crs	706.33	783.14
Total Debt	Rs.Crs	1387.93	1843.16
Debt to Tangible Networkth	Times	1.96	2.35

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): Nil**

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

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable			
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating (September FY22)				
					<table border="1"> <tr> <th>Date(s)&amp; Rating(S) assigned in year T-2 FY22</th> <th>Date(s)&amp; Rating(S) assigned in year T-2 FY21</th> <th>Date(s) &amp; Rating(s) assigned in Year T-3 Date(s) &amp; Rating(s) assigned in Year T-3 FY20</th> </tr> </table>	Date(s)& Rating(S) assigned in year T-2 FY22	Date(s)& Rating(S) assigned in year T-2 FY21	Date(s) & Rating(s) assigned in Year T-3 Date(s) & Rating(s) assigned in Year T-3 FY20
Date(s)& Rating(S) assigned in year T-2 FY22	Date(s)& Rating(S) assigned in year T-2 FY21	Date(s) & Rating(s) assigned in Year T-3 Date(s) & Rating(s) assigned in Year T-3 FY20						
1.	Bank Loan – Fund Based-CC/OD/WC DL/TL (proposed)	Long Term	400.00	BWR AA-(Stable) (Assigned)	-			
2.	Fund Based	Long Term	450.00	BWR AA-(Stable) (Reaffirmed and Withdrawn)	BWR AA- (Stable) (16-Sep-21) (Reaffirmed) BWR AA- (Stable) (1-Dec-20) (Reaffirmed) BWR AA- (Stable) (10-Sep-20) (Reaffirmed) BWR AA- (Stable) (1-Sep-20) (Reaffirmed)			
3.	NCDs	Long Term	145.00	BWR AA-/Stable (Reaffirmed)	BWR AA- (Stable) (16-Sep-21) (Reaffirmed) BWR AA- /Stable (1-Dec-20) (Assigned)			
4.	NCDs	Long Term	-	BWR AA-/Stable (Withdrawn)	BWR AA- /Stable (16-Sep-21) (Reaffirmed) BWR AA- /Stable (1-Dec-20) (Reaffirmed) BWR AA- /Stable			

						(10-Sep-20) (Assigned)	
5	NCDs	Long Term	-	BWR AA- /Stable (Withdrawn)	BWR AA- /Stable (16-Sep-21) (Reaffirmed)	BWR AA- /Stable (1-Dec-20) (Reaffirmed)  BWR AA- /Stable (10-Sep-20) (Reaffirmed)  BWR AA- /Stable (1-Sep-20) (Assigned)	-
6	NCDs	Long Term	102.00	BWR AA+ /Stable (Reaffirmed)	BWR AA+ /Stable (16-Sep-21) (Reaffirmed) with removal of suffix 'CE'	BWR AA+ (CE) /Stable (1-Dec-20) (Reaffirmed)  BWR AA+ (CE) /Stable (10-Sep-20) (Reaffirmed)  BWR AA+ (CE) /Stable (1-Sep-20) (Reaffirmed)	BWR AA+ (CE) /Stable (29-Jan-20) (Reaffirmed)  BWR AA+ (SO) /Stable (28-Jun-19) (Reaffirmed)
7	NCDs	Long Term	128.52	BWR AA+ /Stable (Reaffirmed)	BWR AA+ /Stable (16-Sep-21) (Reaffirmed) with removal of suffix 'CE'	BWR AA+ (CE) /Stable (1-Dec-20) (Reaffirmed)  BWR AA+ (CE) /Stable (10-Sep-20) (Reaffirmed)  BWR AA+ (CE) /Stable (1-Sep-20) (Reaffirmed)	BWR AA+ (CE) /Stable (29-Jan-20) (Reaffirmed)  BWR AA+ (SO) /Stable (28-Jun-19) (Reaffirmed)
8	NCDs	Long Term	-	BWR AA /Stable (Withdrawn)	BWR AA /Stable (16-Sep-21) (Reaffirmed) with removal of suffix 'CE'	BWR AA (CE) /Stable (1-Dec-20) (Reaffirmed)  BWR AA (CE) /Stable (10-Sep-20) (Reaffirmed)  BWR AA (CE) /Stable (1-Sep-20) (Reaffirmed)	BWR AA (CE) /Stable (29-Jan-20) (Reaffirmed)  BWR AA (SO) /Stable (28-Jun-19) (Reaffirmed)
9	NCDs	Long Term	-	-	-	BWR AA (CE) /Stable (1-Dec-20) (Reaffirmed)  BWR AA (CE) /Stable (10-Sep-20) (Reaffirmed)  BWR AA (CE) /Stable (1-Sep-20) (Reaffirmed)	BWR AA (CE) /Stable (29-Jan-20) (Reaffirmed)  BWR AA (SO) /Stable (28-Jun-19) (Reaffirmed)
10	NCDs	Long Term	62.00	BWR AA /Stable (Reaffirmed)	BWR AA /Stable (16-Sep-21) (Reaffirmed) with removal of suffix 'CE'	BWR AA (CE) /Stable (1-Dec-20) (Reaffirmed)  BWR AA (CE)	BWR AA (CE) /Stable (29-Jan-20) (Reaffirmed)  BWR AA (SO) /Stable

						/Stable (10-Sep-20) (Reaffirmed)  BWR AA (CE) /Stable (1-Sep-20) (Reaffirmed)	(28-Jun-19) (Reaffirmed)
11	NCDs	Long Term	-	-	-	-	Withdrawn (6-Dec-19)  BWR AA (SO) /Stable (28-June-19) (Reaffirmed)
12	NCDs	Long Term	-	-	-	-	Withdrawn (6-Dec-19)  BWR AA (SO) /Stable (28-June-19) (Reaffirmed)
	<b>Total</b>		<b>1287.52</b>	<b>Rupees One Thousand Two Hundred Eighty Seven Crores and Fifty Two Lakhs only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Bank Loans and NCDs Simple**  
For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

Hyperlink/Reference to applicable Criteria

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

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**A. K. CAPITAL FINANCE LIMITED**

**ANNEXURE I**

**Details of Loan Facilities rated by BWR**

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
1	Proposed	Fund Based	400.00	0.00	400.00
		<b>TOTAL</b>	<b>400.00</b>		<b>400.00</b>
<b>Rupees Four Hundred Crores Only</b>					

### ANNEXURE I

#### Details of Loan Facilities rated by BWR; now reaffirmed and withdrawn

Sr. No.	Name of the Bank/ Lender	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs.)
1	Bank of India	CC/OD/WCDL	275.00	0.00	275.00
2	Bank of Maharashtra	CC/OD/WCDL	75.00	0.00	75.00
3	CSB Bank (Catholic Syrian)	OD/WCDL	50.00	0.00	50.00
4	Union Bank of India	Term Loan	50.00	0.00	50.00
		<b>TOTAL</b>	<b>450.00</b>	<b>0.00</b>	<b>450.00</b>
<b>Rupees Four Hundred and Fifty Crores Only</b>					

### ANNEXURE II

#### Details of NCDs rated by BWR

Instrument	Issue Date	Amount in ₹ Cr.	Coupon Rate	Maturity Date	ISIN Particulars
NCD	07-Mar-17	16	9.60%	07-Mar-24	INE197P07029
NCD	09-Mar-17	26	9.60%	09-Mar-24	INE197P07052
NCD	20-Mar-17	5	9.60%	20-Mar-24	INE197P07094
NCD	21-Mar-17	15	9.60%	21-Mar-24	INE197P07102
NCD	10-Aug-17	58.52	9.00%	10-Aug-24	INE197P07144
NCD	06-Dec-17	70	9.40%	06-Dec-24	INE197P07169
NCD	28-Jun-18	67	9.75%	28-Jun-25	INE197P07193
NCD	18-Sep-18	35	9.95%	18-Sep-25	INE197P07227
NCD	28-May-21	145	8.00%	28-May-24	INE197P07276
		<b>437.52</b>			



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