

RATING RATIONALE

30 Nov 2023

A. K. Capital Finance Limited

Brickwork Ratings reaffirms the ratings of the NCD issues aggregating Rs.434.52 Cr and withdraws the ratings for the proposed bank loan facilities of Rs. 400 Crs of A. K. Capital Finance Ltd on account of non-utilization.

Particulars:

Facilities/ Instruments**	Amount Rated (Rs. Crs.)		Type	Rating*	
	Previous	Present		-	Previous Ratings (18 Oct 2022)
Proposed fund based bank loans - working capital/ term loans	400.00	-	Long Term	BWR AA-/Stable	Withdrawal on non-Utilisation
NCDs (1)	230.52	229.52	Long Term	^BWR AA+ (Stable) (Reaffirmation)	BWR AA+ /Stable (Reaffirmation)
NCDs (2)	62.00	62.00	Long Term	^BWR AA (Stable) (Reaffirmation)	BWR AA /Stable (Reaffirmation)
NCDs	145.00	143.00	Long Term	BWR AA- (Stable) (Reaffirmation)	BWR AA- /Stable (Reaffirmation)
Total	837.52	434.52	Rupees Four Hundred Thirty Four Crore and Fifty Two Lakhs Only		

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

**Details of bank loan facilities and NCDs are provided in Annexures – I and II

NCDs (1) backed by 20% DSRA support on outstanding principal

NCDs (2) backed by primary security of investments in high rated paper (A rated and above) – Asset Backed securities

RATING ACTION / OUTLOOK

BWR reaffirms the rating of the NCDs issues aggregating Rs.434.52 Cr of A. K. Capital Finance Ltd. (AKCFL). BWR also withdraws the rating of the proposed bank loans of Rs.400 Cr of AKCFL at the request of the Company, on account of non-utilization. The withdrawal is in compliance with BWR's policy for Withdrawal of Ratings.

The ratings 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. 229.52 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. The DSRA is in the form, “AAA” rated debt securities, sovereign debt securities and bank guarantee, Fixed Deposit in any combination.
 3. Similarly, each issue has a T minus structure in place where the payment account is funded prior to the due date (i.e. ‘T’ date). Based on the terms of the individual issues, the payment account is funded between 1 to 4 days of the payment due date.
 4. If the company fails to fund the payment account for the amount due, the debenture trustee will initiate the liquidation of the DSRA assets in the following manner to ensure that the proceeds are available towards payment due on the NCDs by the due date in a predefined manner.
 5. In case the DSRA is utilized in full or part of the value of the DSRA is diminished below the minimum required, AKCFL will be required to replenish the same within seven days of the occurrence of such an event.
2. For NCDs aggregating Rs. 62 Crs
- a) 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).
 - b) The investments is required throughout the tenure of the instruments

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.

AK. 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. 153,715.40 Cr in the past 2 decades. A. K. Capital has managed 1945 assignments of private placement of debt aggregating to Rs. 18,99,821.93 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 125 public issues of debt assignments aggregating to Rs. 190,813.74 Crores (Source: Prime Database) for the country's premier public as well as private sector companies).



Comfortable capital position: As on 30 Sep 2023, the group-level tangible networth stood at Rs. 900.69 Crs, compared with Rs 783.14 Crs as on 31 March 2022 and Rs.863.55 Cr in March 2023. AKCFL has maintained its capital adequacy ratio of more than 20% during the last three years. As on 30 Sep 2023, the capital-to- risk weighted assets ratio (CRAR) of the company stood at 30.99%. The group's debt to tangible networth ratio stood at 2.5 times as on 31 March 2023, compared with 2.35 times as on 31 March 2022.

Sound asset quality: The group's fund-based business carried out through 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.

However, recently AKCFL has reported marginal Gross NPA of 0.63% during H1FY24 As per the management, the Gross NPA of Rs. 3.61 Cr in Sep 2023 pertains to mainly two accounts One pertains to the bought out retail portfolio and other one refers to one corporate account . Of these Corporate NPA, the company has already started recovering principal amount from the said borrower and company is expecting to recover the balance amount in due course.

Credit Risks:-

- **Inherent volatility in debt capital markets business:** The AK 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 FY23 the group reported a total income of Rs. 406.8 Cr and profit after tax of Rs. 88.42 Cr as compared to the total income of Rs. 322.89 Crs and profit after tax of Rs. 83.01 Crs, in FY22.
- **Limited scale of financing operations:** The group has a limited size of the AUM, 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 from the NBFC in a short period of time, thereby mitigating market price volatility. The AUM of AKCFL increased to Rs 2,651.86 Cr in Sep 2023 as against Rs.2,283.29 Cr in March 2023 and Rs.2007.87 Cr in March 2022.

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 a rating negative.

LIQUIDITY INDICATORS: Adequate

As per the ALM as on 30 Sep 2023, the liquidity position is comfortable with no negative cumulative mismatches in any of the buckets.

On a consolidated basis the company has adequate liquidity as on 30 Sep 2023 of Rs. 402.41 Crs which includes Rs. 29.27 Crs in cash, cash balances and liquid MF investments and Rs. 373.14 Crs of undrawn bank lines.

Further, the rated NCDs have a DSRA in the form of Fixed Deposit / Debt Securities, sovereign debt securities in any combination. equivalent to up to 20% of the outstanding principal. Also, the company shall, prior to the pay-in date, deposit into the DSRA an amount equal to the succeeding coupon/ principal payment, and shall maintain the same on a rolling basis. Hence liquidity is considered to be adequate.

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	FY22	FY23	1HFY24
Result Type		Audited	Audited	Unaudited
Total Income	Rs.Crs	205.40	249.92	142.35
Profit after tax	Rs.Crs	57.43	60.71	28.8
Tangible Networkth	Rs.Crs	662.43	715.15	739.77
Total Debt	Rs.Crs	1383.65	1616.61	1969.25
Debt to Tangible Networkth	Times	2.09	2.26	2.66
GNPA	%	-	0.02	0.63
NNPA	%	-	-	0.38
CRAR	%	32.94	33.56	30.99

Consolidated - A. K. Capital Services Limited

Key Financial Indicators	Units	FY22	FY23	H1FY24
Result Type		Audited	Audited	Unaudited
Total Income	Rs.Crs	322.89	406.81	240.97
Profit after tax	Rs.Crs	83.01	88.42	42.31
Tangible Networkth	Rs.Crs	783.14	863.55	900.69
Total Debt	Rs.Crs	1843.16	2161.87	2657.98
Debt to Tangible Networkth	Times	2.35	2.50	2.95

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): No non-cooperation with other CRA

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

Sr No	Name of the Instrument/ Facility	Current Year			Rating History						
		Type (Long Term / Short Term)	Amt Outstanding (Rs. Cr)	Rating	2022	2021	2020				
					18-Oct-22	16-Sep-21	1-Dec-20	10-Sep-20	1-Sep-20	29-Jan-20	
1	Bank Loans - Fund Based - Proposed	Long Term	0	Withdrawn	BWR AA-/Stable (Assigned)						
2	Bank Loans - Fund Based		0		BWR AA-/Stable (Reaffirmed and Withdrawn)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	
3	NCDs	Long Term	143	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Assigned)				
4	NCDs	Long Term			Withdrawn	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Assigned)			
5	NCDs	Long Term			Withdrawn	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Reaffirmed)	BWR AA-/Stable (Assigned)			
6	NCDs	Long Term	229.52	BWR AA+/Stable (Reaffirmed)	BWR AA+/Stable (Reaffirmed)	BWR AA+(CE)/Stable (Reaffirmed) with removal of CE	BWR AA+(CE)/Stable (Reaffirmed)				
8	NCDs	Long Term			Withdrawn	BWR AA/Stable (Reaffirmed) with removal of CE	BWR AA(CE)/Stable (Reaffirmed)				



9	NCDs	Long Term	62	BWR AA/Stable (Reaffirmed)	BWR AA/Stable (Reaffirmed)	BWR AA/Stable (Reaffirmed with removal of CE)	BWR AA(CE)/St able (Reaffirme d)	BWR AA(CE)/Stab le (Reaffirmed)	BWR AA(CE)/Sta ble (Reaffirmed)	BWR AA(CE)/Stab le (Reaffirmed)
Total			434.52	Rupees Four Hundred Thirty Four Crore and Fifty Two Lakhs Only						

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

[General Criteria,](#)

[Approach to financial ratios,](#)

[Banks & Financial Institutions,](#)

[Consolidation of Companies,](#)

[BWR's policy for withdrawal of Ratings](#)

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A. K. CAPITAL FINANCE LIMITED

ANNEXURE I

Details of NCDs rated by BWR

Instrument	Issue Date	Amount in ₹ Cr.	Coupon Rate	Maturity Date	ISIN Particulars	Asset/DSRA / Standalone
NCD	7-Mar-17	16	9.60%	7-Mar-24	INE197P07029	Asset Backed
NCD	9-Mar-17	26	9.60%	9-Mar-24	INE197P07052	Asset Backed
NCD	20-Mar-17	5	9.60%	20-Mar-24	INE197P07094	Asset Backed
NCD	21-Mar-17	15	9.60%	21-Mar-24	INE197P07102	Asset Backed
NCD	10-Aug-17	58.52	9.00%	10-Aug-24	INE197P07144	DSRA Backed
NCD	6-Dec-17	70	9.40%	6-Dec-24	INE197P07169	DSRA Backed
NCD	28-Jun-18	66	9.75%	28-Jun-25	INE197P07193	DSRA Backed
NCD	18-Sep-18	35	9.95%	18-Sep-25	INE197P07227	DSRA Backed
NCD	28-May-21	143	8.00%	28-May-24	INE197P07276	Standalone /Unsupported
		434.52				

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