A.K. Capital Finance Limited

June 16, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Commercial Paper	**20.00 (Rs. Twenty crore only)**	**CARE A1+ (A One Plus)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Commercial Paper issue of A.K. Capital Finance Limited (AKCFL) factors in A. K. Capital group's track record and established presence in the debt capital markets through the parent entity A. K. Capital Services Limited (AKCSL) which is a SEBI registered Category I merchant banker having a strong institutional & Retail client base. The rating also factors in experience of the promoter and the management, comfortable capitalization level with moderate gearing, good resource raising ability, comfortable liquidity, adequate profitability and healthy asset quality.

The rating also takes note of the income volatility due to dependence on debt capital markets, moderate scale of operation and increasing competition and high borrower concentration risk due to its nature of its corporate lending and investment.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/ upgrade: Not applicable

Negative Factors- Factors that could lead to negative rating action/downgrade:

- *Deterioration in asset quality with Net NPA to total AUM exceeding 3% on sustained basis*
- *Deterioration in liquidity profile*
- *Deterioration in profitability with ROTA falling below 1% on sustained basis*
- *CRAR Ratio to maintain a minimum of 20% on sustained basis*

Detailed description of the key rating drivers

Key Rating Strengths

Track record of the group in debt market and experience of promoter and management team

AKCFL is a majority owned subsidiary of AKCSL which has been providing merchant banking services for over the last twenty five years and is a leading player in the corporate debt market segment through management of private placements as well as public issues. AKCSL has managed 177 private placement assignments aggregating to Rs.2,55,228 crore in FY21 (refers to period from April 01 to March 31). On a cumulative basis, AKCSL has managed 1,825 merchant banking assignments till date aggregating to Rs.15.78 lakh crore in the past decade. Apart from private placement, AKCSL has also managed 3 public issues aggregating to Rs.6,722 crore during FY21 as against 17 public issues aggregating to Rs.11,019 crore during FY20. In the period FY17-FY21, AKCSL was also the top ranked lead manager for public issues of debt instruments, having managed 49 public issues aggregating to Rs.80,619 crore. The group has a large institutional client base including provident funds, banks, financial institutions, insurance companies, mutual funds and corporates and retail client base.

The management team is headed by Mr. A.K. Mittal (Managing Director and CEO) who is a first generation entrepreneur and promoter of A. K. Group with over three decades of experience in the financial services sector. The company has a second line of management having experience in the financial services sector.

Comfortable capitalization levels with moderate gearing

The company is comfortably capitalized with internal accruals and had a tangible net worth of Rs.611 crore (standalone) as on March 31, 2021. The company reported Capital Adequacy Ratio (CAR) of 36.70% (March 31, 2020: 49.81%) and Tier-I CAR of 36.62% (March 31, 2020: 49.71%) as on March 31, 2021 with moderate overall gearing at 2.04 times (March 31, 2020: 1.49 times) as on March 31, 2021.

On a consolidated basis, AKCSL's gearing is stood at 2.06 times as on March 31, 2021 as against 1.46 times as on March 31, 2020, while the consolidated tangible net worth of the group stood at Rs.677 crore as on March 31, 2021.

Good asset quality

AKCFL has a lending portfolio which comprises of loans given to borrowers as well as investment in Non-Convertible Debentures (NCD) and other debt instruments. AKCFL has sound risk management practices and is benefitted from the group's experience in the debt market in assessment of credit quality of the borrowers, which has helped it maintain good asset quality over the years. The company has Nil NPAs over the last three years. Further, the investments in the debt

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

instruments which are generally into ‘A rated and above’ and have adequate liquidity, providing flexibility to sell-down assets and investments.
During the last three years, majority of the lending book was to financial services sector and on account of uncertainty witnessed in the financial services market, the company’s total business assets (i.e. total AUM) had contracted from Rs.2,103 crore as on March 31, 2018 to Rs.1,804 crore as on March 31, 2021.
Further, out of the total Assets Under Management (AUM), which includes term loans, loans in form of NCD, investment in G-Sec and other highly rated papers, ~43% of the total AUM exposure as on March 31, 2021 is towards treasury book (G-sec plus highly rated papers), which has low risk.

Diversified resource profile
AKCFL has diversified resource base and has borrowings in form of NCD’s, term loans and CC Facility from banks and CBLO Borrowings. The company’s borrowings has increased by ~48% y-o-y to Rs.1,246 crore as on March 31, 2021. Out of the total borrowings, ~53% is funded by NCD, ~37% from bank lines and ~10% from Collateralized Borrowing and Lending Obligation (CBLO) segment of the Clearing Corporation of India Limited (CCIL). AKCFL has access to CC facility from bank’s to the tune of Rs.450 crore. The company has raised Rs.225 crore in form NCD during FY21 at competitive rates, demonstrating its ability to raise funds even in time of distress.

Key Rating Weaknesses
Volatility in profitability parameters
AKCFL’ follows a risk management practice wherein during times of uncertainty, it reduces its loan book exposure and increases the investments proportion, which exposes it to volatility in revenue profile.
The company’s AUM saw increased proportion of investments while the loan portfolio contracted during the last two years. During FY20, due to uncertainty in the credit market, the company’s total income declined by 18.65% to Rs.182.48 crore (standalone) and Profit After Tax (PAT) declined by 20.32% to Rs.36.63 crore due to decline in AUM. During FY21, the company’s total income (standalone) was stable at Rs.182.47 crore as the company’s disbursement picked-up post November 2020. The company’s interest expense has significantly declined by 28.11% to Rs.74.61 crore even as the borrowings increased by 47.75% to Rs.1,246.09 crore as the average cost of borrowings declined by 78 bps to 7.14%. The operating expense has increased by 17.41% to Rs.38.16 crore as the commission expenses increased by 93.34% to Rs.12.85 crore, which constitutes 33.67% of the total operating expenses. Accordingly, the company reported a 37.87% increase in PAT to Rs.50.5 crore for FY21 and its Return on Total Assets (ROTA) improved by 110 Bps to 3.03%.
On consolidated basis, AKCSL derives majority of its income by subscribing debt instruments from the primary market and retailing them out to its client base, which can lead to potential income volatility due to exposure to market risk of its bond portfolio. Further, the transaction volumes would depend upon the overall buoyancy in debt capital markets which can exhibit periodic volatility and impact AKCSL’s income. In FY21, AKCSL’s consolidated total income was Rs.289.15 crore (FY20: Rs.314.21 crore) and consolidated PAT was Rs.75.05 crore in FY21 as against Rs. 51.48 crore in FY20 due to 28.44% decline in interest expense and 23.06% decline in operating expense.

High exposure to corporate segment with relatively higher borrower concentration which may be vulnerable to high provisioning in case of slippages
The company has over the years maintained good asset quality. However, due to its nature of its exposures, the company remains vulnerable to high concentration in exposure as it focuses on large ticket size corporate lending to mainly financial services entities, a sector, which has been under considerable stress for some time now due to multiple crisis starting from demonetization and followed by a big NBFC going burst and now the Covid-19.
The company’s top ten borrowers in the lending segment (term loan plus loans in form of NCD) constituted ~29% of the total AUM (lending segment plus treasury book) and ~85% of the tangible net worth as on March 31, 2021. The company’s ability to further scale up with impeccable asset quality remains a key rating monitorable.

The company’s top ten exposures in the overall book (lending book plus treasury book) constitute ~36% of the total AUM and 107.14% of the tangible networth as on March 31, 2021.

Liquidity: Strong
The company’s ALM profile as on March 31, 2021 has no negative cumulative mismatches up to one year. The company had cash and bank balance of Rs.6.68 crore, G-sec investment of Rs.148.23 crore and investment in highly rated bonds of Rs.620.95 crore as on March 31, 2021. The management has indicated to maintain around 25% of its AUM in highly rated and highly liquid investments at all times. The company has sanctioned undrawn lines from banks to the tune of Rs.93.46 crore as on March 31, 2021 and company is among India’s few NBFCs having membership of Collateralized Borrowing and Lending Obligation (CBLO) segment of the Clearing Corporation of India Limited (CCIL) (An autonomous body regulated by Reserve Bank of India).

Analytical approach:
CARE has considered the standalone financial risk profile of A.K. Capital Finance Limited along with business synergies, shared brand linkage and expected support from its parent entity A.K. Capital Services Limited.

Applicable Criteria
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in Ratings
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Non Banking Finance Companies (NBFCs)

About the Company
AKCFL is a 98.7% subsidiary of AKCSL, a category-I merchant banker listed on Bombay Stock Exchange, as on March 31, 2021. AKCFPL was formally known as Girdhar Vanijya Pvt. Ltd. and in September 2008, the company was acquired by AKCSL. AKCFL is a RBI registered Systemically Important Non-Deposit taking NBFC and is primarily engaged in onward lending and investment in debt market. The company is the flagship NBFC of the group and offers customized debt solutions to eligible borrowers having good repute and proven track record in the industry.
AKCFL has a 100% subsidiary 'Family Home Finance Private Limited' (FHFPL) which is a housing finance company registered with NHB. The company was incorporated on June 29, 2017 and had negligible loan portfolio as on March 31, 2021. The management does not intend to grow the housing finance business and would explore suitable options to monetize the HFC business.
AKCSL has been providing merchant banking services for over twenty years and is a leading player in the corporate debt market segment through management of private placements as well as public issues.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	182.48	182.47
PAT	36.63	50.50
Interest coverage (times)	1.45	1.88
Total Assets^	1439.04	1897.15
Net NPA (%)	Nil	Nil
ROTA (%)	1.93	3.03

A: Audited; ^: Net of intangible assets, revaluation reserve & Deferred Tax Assets (DTA)
Note: The calculations are as per CARE Ratings' calculation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	20	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	-	1)Withdrawn (29-Mar-19)
2.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (26-Sep-19)	1)CARE A1+ (29-Mar-19)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (29-Mar-19)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	20.00	CARE A1+	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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