A. K. Capital Services Limited

July 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating reaffirmation on the debt instrument of A. K. Capital Services Limited (AKCSL) continues to factor in the A. K. Capital group's long track record and established presence as a merchant banker in the debt market segment. AKCSL is the flagship holding company of the group. The rating further draws comfort from experience of the promoter and management team, strong institutional client base, comfortable capital structure and healthy asset quality.

However, the rating remains constrained considering inherent volatility in the earnings profile due to the dependence on level of activity in debt capital markets; exposure to market risk with adverse movement in interest impacting profitability, mitigated to a large extent by low average holding period; high exposure to the corporate segment with a relatively higher client concentration risk; and competitive merchant banking industry scenario.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not applicable

Negative factors

- Substantial deterioration in profitability on sustained basis.
- Deterioration in the market position in terms of client base.
- Deterioration in the credit quality major investment in the inventory or liquidity profile.
- Increase in leverage, with overall gearing beyond 4x on a sustained basis at AKCSL's consolidated level.

Analytical approach:

Consolidated. List of companies consolidated given in Annexure-6

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Long track record with established market presence and experienced management team

The company has been providing merchant banking services for over 25 years and is one of the leading players in the corporate debt market segment through the management of private placements and public issues. It is also among the largest arrangers of debt for public sector undertaking (PSUs), including tax-free bonds, private finance institutions (PFIs), banks and the private sector.

On a cumulative basis, the group has managed 2,048 assignments till March 31, 2024, aggregating to ~₹22 lakh crore (Source: Prime Database). Within private debt placement segment, the group managed 191 assignments (excluding InvITs and ReITs) aggregating to ₹298,916 crore corresponding to a market share of 43.4% for FY24 (refers to April 01 to March 31), as compared to 204 assignments aggregating to ₹275,531 crore in FY23.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

AKCSL's management team is headed by A.K. Mittal, Managing Director, a first-generation entrepreneur, and the company's promoter, who has more than three decades of experience in the financial services sector and is well-networked in the industry. The company has experienced top and middle-level management, majority of whom have been associated with the group for a long time.

Strong institutional clientele

A. K. Group participates in primary and secondary debt issuances based on the demand for securities and holds securities in its books for a short period before further down selling these securities. Over the years, AKCSL has built relationships with a large institutional client base, including leading Indian corporates, banks, non-banking financial institutions (NBFCs), financial institutions (FIs), provident funds, pension funds, insurance companies, mutual funds, and alternate investment funds (AIFs), among others. As on March 31, 2024, the group had a client base of over 200 institutions and more than 1,000 provident and retirement funds, which helps in faster down-selling of securities.

Comfortable capital structure

While the company's consolidated capital structure is comfortable, its gearing levels are volatile depending on debt placement volumes, investor appetite, and the turnover of debt securities. ACKSL's consolidated net worth has been improving steadily due to internal accruals and stood at ₹914 crore as on March 31, 2024 (March 31, 2023: ₹835 crore). At a consolidated level, gearing stood at 3.01x as on March 31, 2024 (March 31, 2023: 2.61x).

AKCSL's standalone borrowing is largely in the form of working capital funding to participate in debt placement (primary and secondary market volumes). As a result, AKCSL's standalone gearing levels are prone to volatility depending on the company's participation in the debt placement. On a standalone basis, AKCSL's gearing stood at 1.39x as on March 31, 2024 (March 31, 2023: 1.09x).

Majority borrowings of the group pertain to A. K. Capital Finance Limited (AKCFL), which is the NBFC arm of the group engaged in lending (through loan and investment exposures) to corporate entities (largely NBFCs). AKCFL reported a capital adequacy ratio (CAR) of 33.30% (March 31, 2023: 33.56%) and a Tier-I CAR of 33.18% (March 31, 2023: 33.40%) as on March 31, 2024, with moderate overall gearing (debt to total net worth [TNW]) at 2.64x (March 31, 2023: 2.27x) as on March 31, 2024. AKCSL (the group) has been able to raise debt funds through bank borrowings and from debt capital markets at competitive rates.

Healthy asset quality

AKCSL is into dealing fixed-income securities/instruments, non-convertible debentures (NCDs), pass through certificates (PTCs) and such other fixed-income securities with the minimum investment-grade rating category. These securities are marketable and can be liquidated in a short span of time ranging from a few days to a few months, depending on the demand for securities and the company's ability to sell down.

AKCFL's assets under management (AUM) on a standalone basis consists of lending book and treasury assets, each comprising ~50% of the AUM as on March 31, 2024. The lending book comprises term loans and fixed-income securities/instruments given to companies in the banking and financial services segment, including NBFCs that are typically rated investment grade and above. The treasury book includes G-Sec plus highly rated papers that are more liquid and have relatively lower risk.

AKCFL has maintained healthy asset quality. As on March 31, 2024, around 81% (March 31, 2023: 83%) of the AUM was in G-Sec or 'A' category and above rated papers. AKCFL reported nil gross non-performing assets (GNPA) ratio as on March 31, 2024 (March 31, 2023: 0.02%). AKCFL has sound risk management practices and has benefitted from the group's experience in debt market in the assessment of credit quality of borrowers, which has helped it maintain healthy asset quality over the years.

Key weaknesses

Volatility in profitability parameters

AKCSL on a standalone basis derives the majority of its income by subscribing to debt instruments from the primary market and retailing them out to its client base. The transaction volumes depend upon the overall buoyancy in debt capital markets, which can exhibit periodic volatility and impact AKCSL's income. AKCSL's consolidated income profile consists of fee-based income earned from its merchant banking, brokerage, advisory, and syndication activities, which contributed 31% of its total income for FY24 (FY23: 26%) and fund-based income earned from its loan portfolio and investment book (including trading income), which contributed 69% of its total income for FY24 (FY23: 73%).

For FY24, AKCSL reported consolidated profit after taxes (PAT) of ₹93 crore (FY23: ₹88 crore) on total income of ₹519 crore (FY23: ₹407 crore). On a standalone basis, AKCSL reported a PAT of ₹32 crore (FY23: ₹31 crore) on a total income of ₹127 crore (FY23: ₹115 crore) for FY24.

Exposure to market risk with adverse movement in interest, impacting the profitability

The company is also exposed to market risks arising out of the adverse movement of prices of the securities, which are influenced by the level and changes in interest rates in the economy and developments in other markets, including credit and capital markets, international bond markets, and policy actions by the Reserve Bank of India (RBI). This may result into adverse price volatility on mark-to-market basis. In addition, the company may also face risks on account of its inability to liquidate holdings due to the non-availability of buyers for the securities. Due to the illiquidity, the company may need to sell at adverse prices. CARE Ratings notes that in recent years, volatility increased in fixed-income markets with many fluctuations observed led by domestic and international events.

The company manages the market risk through back-to-back sell down majority securities and the remaining portion is generally sold within 1-3 months. Being in the fixed-income industry for over 25 years, AKCSL built expertise and has been able to manage the interest rate risk quite effectively by tweaking its positions and maintaining its profitability in volatile interest rate scenarios; however, managing profitability with higher-than-expected movement in interest rates continues to be a key rating sensitivity.

High exposure to the corporate segment with relatively higher borrower concentration risk

Over the years, the group maintained good asset quality. AKCSL, through AKCFL takes exposure through the lending book, where it lends through loans and investments in debt securities. It has a treasury book, which invests in G-Secs and high-rated securities, which provides the company with flexibility to sell down and has helped it maintain good asset quality. However, due to the nature of its exposures, AKCFL remains vulnerable to a high concentration in exposure as it focuses on large ticket-size corporate lending to mainly financial service entities. As AKCFL's exposures are relatively large for its size, slippages in its portfolio will require higher provisioning, which may impact its profitability.

The company's top 10 borrowers in the lending segment (term loans plus loans in the form of NCDs) constituted around 26% (March 31, 2023: 22%) of the total AUM (lending segment plus treasury book) and around 0.90x (March 31, 2023: 0.72x) of the TNW as on as on March 31, 2024.

AKCFL is selective in taking exposures and investing in NCDs or lending to companies (mostly to NBFCs) with a minimum rating of BBB category. AKCSL's top five clients accounted for approximately 38% of the merchant banking income in FY24, thus resulting in a high concentration risk of revenue on a standalone basis (FY23: 69%).

Increasing competition in the merchant banking business

The number of lead arrangers has increased over a period of time, which has impacted the fees earned from debt placement as well as the transaction volume managed. Intensive competition in the merchant banking space, coupled with the high dependence on capital market conditions, may impact the company's earnings profile and profitability.

Liquidity: Adequate

AKCSL's standalone debt profile includes term loans of around ₹22.54 crore (outstanding as on March 31, 2024) and sanctioned working capital limits of ₹775 crore as on March 31, 2024. The company utilises working capital facility for participation in debt issuances in the primary and secondary markets, a large proportion of which is typically down sold by the company to investors within a short period, post which facilities are repaid. Average working capital utilisation was 43% for 12-months ended March

2024. On a standalone basis, AKCSL has term loan repayments of ₹6.25 crore up to September 2024. AKCSL had ₹295 crore worth of AAA rated (₹594 crore worth of AA & above) investments as on March 31, 2024, which can be readily liquidated.

Environment, social, and governance (ESG) risks:

AKCSL's board comprises a total of seven directors, of which, three are independent directors and one is woman director. The company's operations are not energy intensive. However, adequate measures for conservation of energy, usage of alternate sources of energy and investments for energy conservation, wherever required have been taken. The company makes all efforts towards conservation of energy, protection of environment and ensuring safety.

The company recognises the significance of robust IT infrastructure in the current era, where it is crucial to offer clients faster and more efficient services. Towards this end, the company makes investment each year to ensure adoption of best technologies that can streamline operations, brings in efficiency and enable to provide better customer service to make it more competitive in the market.

Applicable criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Consolidation
Short Term Instruments
Criteria for Non-Banking Financial Companies
Financial ratios – Financial Sector
Service Sector

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Capital markets	Other capital market related services

AKCSL is a SEBI-registered Category-I merchant banker. The company has been providing merchant banking services for over 25 years and is a leading player in the corporate debt market segment through the management of private placements and public issues. AKCSL is primarily involved in merchant banking activity and dealing in the fixed-income market, buying and selling rated debt securities (ie corporate bonds, G-Secs) and advisory activities. The merchant banking activities conducted by AKCSL involve corporate debt raising through private placement of bonds and debentures, initial public issue of bonds and debentures, project financing, working capital financing, and financial advisors, among others.

AKCSL (Consolidated)

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	407	519
PAT	88	93
Interest coverage (times)	1.90	1.63
Total Assets	3,116	3,801
Net NPA (%)	Nil	Nil
ROTA (%)	3.03	2.68

A: Audited; Note: these are latest available financial results

AKCSL (Standalone)

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	115	127
PAT	31	32
Interest coverage (times)	2.41	2.02
Total Assets	983	1,186
ROTA (%)	3.23	2.93
PAT Margin (%)	26.63	25.00

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore) *	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	INE701G14155	12/01/2024	8.75	10/07/2024	1.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE701G14155	12/01/2024	9.00	10/07/2024	49.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE701G14163	15/05/2024	8.60	07/02/2025	10.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE701G14189	20/06/2024	8.75	18/09/2024	25.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE701G14197	27/06/2024	8.75	24/10/2024	15.00	CARE A1+

*as on June 30, 2024

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (07-Feb-24)	1)CARE A1+ (13-Feb-23) 2)CARE A1+ (19-Jul-22)	-

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not available

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	A.K. Capital Finance Limited (AKCFL)	Full	Subsidiary
2.	A.K. Stockmart Private Limited	Full	Subsidiary
3.	A.K. Wealth Management Private Limited	Full	Subsidiary
4.	A.K. Capital Corporation Private Limited	Full	Subsidiary
5.	A.K. Capital (Singapore) PTE Limited	Full	Subsidiary
6.	Family Home Finance Private Limited	Full	Step Down Subsidiary
7.	A. K. Alternative Asset Managers Private Limited	Full	Step Down Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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