A.K. Capital Finance Private Limited (Revised)
January 08, 2018

Ratings

Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities*	275.00 (enhanced from Rs.240 crore)	**CARE A+ (SO); Stable [Single A Plus (Structured Obligation); Outlook: Stable]**	Reaffirmed
Long term Bank Facilities	125.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Commercial Paper	350.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**750.00 (Seven Hundred and Fifty Crore only)**		

**backed by unconditional and irrevocable corporate guarantee provided by A.K. Capital Services Ltd. (AKCSL; rated 'CARE A+; Stable')*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The rating factors in AK Capital group's long and established presence as a merchant banker in the debt market segment, experienced management team, strong institutional client base and low gearing level. However, the rating is constrained by income volatility due to dependence on debt capital markets, client concentration risk, limited track record & moderate concentration in corporate loan segment and competitive merchant banking industry scenario. Further, AKCFPL will maintain unutilised credit lines for CP outstanding beyond Rs.200 crore. Managing and maintaining competitive position in the merchant banking business, overall consolidated gearing, significant adverse price movement in its investment and treasury book, concentration and asset quality of loan book and profitability are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced management team

The management team is headed by Mr. A.K. Mittal (Managing Director and CEO) a qualified Charted Accountant, L.L.B , MA in (Eco) & B.SC is the first generation entrepreneur and promoter of A.K Group with more than three decades of experience in the financial services sector. The second line of management also has good experience in the financial sector.

Established track record in debt placement

A.K. Capital Services Limited (AKCSL), the parent entity of A.K. Capital Finance Private Limited (AKCFPL), has been providing merchant banking services for over twenty years and is a leading player in the corporate debt

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

market segment through management of private placements as well as public issues. The company has placed approximately Rs.1,47,273 crore of debt issues in FY17 with debt placement for PSU's comprising about 71% of the total debt placement. In H1FY18, AKCSL placed Rs.46,009 crore of debt issue with PSUs debt placement comprising 78.58% of the total debt placement.

Strong institutional clientele

AKCSL continues to remain one of the leading players in the domestic corporate debt market segment having relationship with large institutional client base including provident funds, banks, Financial Institutions, insurance companies, mutual funds and corporates. The company's client base includes 200 institutions and more than 1,000 provident/retirement funds, HNI's etc.

Low gearing & strong capitalization

During FY17, AKCFPL received Rs.21.50 crore of equity capital infusion from its parent entity i.e AKCSL. The company received further capital infusion of Rs 65 crore in the form of Compulsory Convertible Preference Shares from the promoters and promoter entity. The total CAR of AKCFPL was 38.71% with Tier I CAR ratio of 38.50% as on September 30, 2017 (March 31, 2017: CAR- 34.24%, Tier I CAR-34.14%). The overall gearing of AKCFPL on standalone basis was at 4.04 times as on March 31, 2017 compared with 3.40 times as on March 31, 2016. For AKCFPL, the adjusted gearing was 2.56 times as on March 31, 2017(excluding CBLO and repo borrowings) as compared with 1.94 times as on March 31, 2016 (adjusted for un-realized loss in equity investments and excluding CBLO borrowings). The overall gearing was 2.67 times as on September 30, 2017 and adjusted gearing (excluding CBLO borrowing) was 1.99 times as on September 30, 2017.

On a consolidated basis, AKCSL's gearing was 4.16 times as on March 31, 2017 (3.27 times as on March 31, 2016) and adjusted gearing (excluding CBLO and repo borrowings) at 2.91 times as on March 31, 2017 (1.91 times as on March 31, 2016). The consolidated tangible net-worth was Rs. 481.10 crore (including minority interest) as on March 31, 2017 (FY16: Rs.423.46 crore-including minority interest).

Key Rating Weaknesses

Volatility in profitability parameters

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 FY17, AKCSL's consolidated total income increased by 38% to Rs.338.94 crore (FY16- Rs. 245.62 crore). AKCSL's consolidated PAT was Rs.57.4 crore in FY17 as against Rs.41.6 crore in FY16.

On a standalone basis, in FY17, AKCFPL reported PAT of Rs.31.09 crore on a total income of Rs.153.62 crore as compared to PAT of Rs.21.59 crore on a total income of Rs.118.48 crore in FY16. In H1FY18, AKCFPL reported PAT of Rs.30.05 crore on a total income of Rs.97.10 crore.

Client Concentration in merchant banking business

In merchant banking business AKCSL continues to have client concentration. Its top 20 clients accounted for approximately 89.90% of merchant banking income in FY17 as compared with 88.1% for FY16. In H1FY18, top 20 clients accounted for 93.44% of the merchant banking income.

Limited track record and moderate concentration in corporate loan segment

AKCFPL is exposed to the borrower concentration risk in its lending book and top 5 borrowers accounted for 29% of consolidated tangible net-worth of AKCSL as on March 31, 2017 (34% as on March 31, 2016). Given the limited track record of operations, asset quality is yet to be tested. The company has Nil NPA as on September 30, 2017.

Increasing competition in merchant banking business

The total volume of AKCSL increased by 40.8% to Rs.1,47,273 crore. The merchant banking fees was Rs.57.30 crore in FY17 as compared to Rs.56.03 crore in FY16. The merchant banking fees did not increase on account of increasing competition in this segment. In H1FY18 AKCSL handled debt issues of Rs.46,009 and earned a merchant banking fee of Rs.25 crore.

Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run. Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

Analytical approach: Consolidated

A K Capital Services Limited (AKCSL) owns 98.73% in A K Capital Finance Private Limited (AKCFPL) as on September 30, 2017 and the management/line functions of both the businesses is common with significant operational and financial integration between them. Accordingly, CARE has considered a consolidated view of AKCSL for arriving at the rating of AKCFPL.

Applicable Criteria
Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
Rating Methodology- Non Banking Finance Companies
Financial Ratios-Financial Sector
Factor Linkages in Ratings
Rating of Short term instruments

About the Company
A.K Capital Services Limited (AKCSL)

AKCSL is a SEBI registered Category I Merchant Banker. The company 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. The merchant banking activities conducted by AKCSL involves raising corporate debt through private placement of bonds and debentures and initial public issue of bonds and debentures. It is currently operating through a branch network of 10 offices in 9 cities.

A.K Capital Finance Private Limited (AKCFPL)

AKCFPL is a 98.73% subsidiary of A.K. Capital Services Ltd. (AKCSL rated **'CARE A+; Stable'**) as on September 30, 2017. AKCFPL was formally known as Girdhar Vanijya Pvt. Ltd. and in September 2008, the company was acquired by AKCSL. AKCFPL is a RBI registered Systemically Important Non-Deposit taking NBFC and is primarily engaged in lending through various credit instruments to eligible business and is also involved in dealings of bonds and debentures (G-sec, corporate bonds and PSU bonds) and generates investment income and interest income taking proprietary positions in various marketable securities to be retailed out to institutions like provident funds, banks, insurance companies, mutual funds corporates, HNI's and family offices.

AKCSL (Consolidated)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	245.62	338.94
PAT(after minority interest)	41.58	57.43
Interest coverage (times)	1.73	1.84
Total Assets	1,852.90	2,504.02
ROTA (%)	2.69	2.64

A: Audited

AKCFPL

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	118.48	153.62
PAT	21.59	31.09
Interest coverage (times)	1.43	1.60
Total Assets	1,561.26	2,052.48
Gross NPA (%)	Nil	Nil
ROTA (%)	1.72	1.72

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.*

Analyst Contact:
Name: Mr Abhishek Gupta
Tel: 022-67543558
Email: abhishek.gupta@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long Term Bank Facilities (CC/OD/WCDL/Line of Credit)	-	-	-	275.00	CARE A+ (SO); Stable
Long Term Bank Facilities (Proposed)	-	-	-	125.00	CARE A+; Stable
Commercial Paper	-	-	7days-1 year	350.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Demand loan	LT	275.00	CARE A+ (SO); Stable	-	1)CARE A+ (SO) (09-Nov-16)	1)CARE A+ (SO) (27-Nov-15)	1)CARE A+ (SO) (16-Oct-14)
2.	Commercial Paper	ST	350.00	CARE A1+	1)CARE A1+ (21-Aug-17) 2)CARE A1+ (07-Jun-17)	1)CARE A1+ (09-Nov-16) 2)CARE A1+ (29-Jul-16)	1)CARE A1+ (27-Nov-15)	1)CARE A1+ (16-Oct-14)
3.	Fund-based - LT-Term Loan	LT	125.00	CARE A+; Stable	-	1)CARE A+ (09-Nov-16)	1)CARE A+ (27-Nov-15) 2)CARE A+ (10-Apr-15)	1)CARE A+ (16-Oct-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691