

**A.K. Capital Finance Private Limited**

August 21, 2017

**Ratings**

<b>Instrument</b>	<b>Amount (Rs. crore)</b>	<b>Ratings<sup>1</sup></b>	<b>Rating Action</b>
Commercial Paper	350 (enhanced from 200) (Rs. Three hundred and fifty crore only)	<b>CARE A1+ (A One Plus)</b>	Reaffirmed

*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 & 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 Chartered 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. He is supported by Mr. Deepak Mittal (whole-time director) who has over 16 years of experience in capital and debt market. 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 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 (refers to period April 1- March 31) with debt placement for PSU's comprising about 71% 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, insurance companies, mutual funds and corporates. The company's client base includes 200 institutions and more than 1,000 provident/retirement funds.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

***Low gearing & strong capitalization***

The total CAR of AKCFPL was 34.24% with Tier I CAR ratio of 34.14% as on March 31, 2017 (March 31, 2016: CAR- 36.51%, Tier I CAR-36.41%). The overall gearing of AKCFPL 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 for un-realized loss in equity investments and excluding CBLO borrowings backed by government securities was 2.56 times as on March 31, 2017 as compared with 1.94 times as on March 31, 2016. The overall gearing was 2.22 times as on June 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). The consolidated tangible net-worth was Rs. 481.10 crore (including minority interest) at the end of FY17 (FY16: Rs.423.46 crore-including minority interest).

**Key Rating Weakness*****Volatility in profitability parameters***

On consolidated basis, AKCSL derives majority of its income by purchasing 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. 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 Q1FY17, AKCFPL reported PAT of Rs.15.23 crore on a total income of Rs.47.13 crore.

***Client Concentration in merchant banking business***

In merchant banking business AKCSL continues to have client concentration. Its top 20 clients accounted for approximately 89.8% of merchant banking income in FY17 as compared with 88.1% for FY16.

***Limited track record and concentration in corporate loan segment***

AKCFPL is exposed to the borrower concentration risk in its lending book and top 5 borrowers accounted for 37% of total loan book and 38% of consolidated tangible net-worth of AKCSL as on March 31, 2017. Given the limited track record of operations, asset quality is yet to be tested. The company has Nil NPA as on June 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.

**Industry 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 June 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**

[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+'). 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)**

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
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
Net 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Abhishek Gupta

Tel: 022-67543558

Email: [abhishek.gupta@careratings.com](mailto:abhishek.gupta@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://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 leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## 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
Commercial Paper	-	-	7-364 days	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	240.00	CARE A+ (SO)	-	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+ (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+	-	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](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto: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](mailto: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](mailto: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](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: [anand.jha@careratings.com](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691