

Press Release

AKME Fincon Limited

November 20, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated	Rs.50.00 crore
Long Term Rating	ACUITE BBB- / Stable

^Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 41.32 Cr. bank facilities and has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 8.68 Cr. bank facilities of Akme Fincon Limited(AFL). The outlook is '**Stable**'.

About AFL:

AFL (Akme Fincon Limited), incorporated in 1994, is an Udaipur, Rajasthan, based non-banking finance company (NBFC) promoted by late Mr. Mohan Lal Nagda and Jain family. The company is engaged in extending financing of two wheelers, three wheelers, commercial vehicles and loan against property (LAP) where in the target borrower base is to SMEs.

The company is a part of larger AKME Group having presence of over two decades in financial services and real estate sectors. The day to day operations of the company are managed by Mr. Anil Kumar Jain, who is the managing director. The company presently operates through a network of 35 branches spread across Rajasthan, Madhya Pradesh, Maharashtra and Gujarat as on June 30, 2019, with majority of their operations in Rajasthan.

Analytical Approach:

Acuité has considered a standalone view on AFL's business and financial risk profile to arrive at the rating.

Earlier, Acuité had adopted a consolidated approach on the business and financial risk profile of AKME Fintrade India Limited (AFIL) along with AKME Fincon Limited (AFL) and AKME Star Housing Finance Limited (ASHFL). The consolidated approach was driven by the common management, shared brand, and strong business, operational and financial synergies between these companies.

The change in the approach for AKME Group is on account of Akme Star Housing Finance Limited entering into a definitive agreement with Arkfin Investments Private Limited (AIPL) for equity infusion.

The management's philosophy is to manage the three companies i.e. ASHFL, AFL and AFIL on independent lines with no guarantees or cross default guarantees extended within the group. Hence, AFL's linkages with the other group entities in the form of direct/indirect exposures among others are expected to be significantly lower.

Key Rating Drivers

Strengths

- **Established track record in financial services**

AFL commenced its lending operations in 1994 upon registration as a Non-Banking Finance Company (NBFC). The company mainly operates in Rajasthan, Madhya Pradesh, Maharashtra and Gujarat with a network of 35 branches as on June 30, 2019. The company is part of AKME group which is promoted by late Mr. Mohan Lal Nagda and Jain family. The promoters have over three decades of presence in financial services which supports the business profile of the Group.

AKME group entered financial services sector in 1994 with AKME Fincon Limited (NBFC) and has gradually expanded its operations through group companies, AKME Fintrade Limited (a non-deposit taking NBFC) and AKME Star Housing Finance Limited (HFC). AFL largely operates in Rajasthan and has expanded to Maharashtra, Madhya Pradesh and Gujarat.

The company has maintained comfortable capitalisation at above 25 percent levels over the last three years ended March 31, 2019. The company's capital adequacy stood at 28.2 percent as on June 30, 2019 of which Tier I capital comprised 27.8 percent and the remaining was contributed by Tier II.

Acuite believes that AFL will continue to benefit from its established presence in the financial services industry along with the experienced promoters. This will enable the company to maintain strong growth momentum over the medium term across various products and help steadily scale-up the operations.

Weaknesses

- **Ability to scale up operations while maintaining asset quality and profitability metrics:**

AFL's loan book has grown to Rs. 70.4 Cr. as on March 31, 2019 as against Rs. 54.1 Cr. as on March 31, 2018. As on June 30, 2019, the overall loan book stood at Rs. 71.05 Cr., of which two wheeler financing constituted 72.3 percent, followed by loan against property (LAP) which comprised 22.8 percent, three/four wheeler loans of 4.1 percent and commercial vehicle loans of 0.7 percent. Going forward the company plans to increase their Loans against property (LAP) book towards SME borrowers in order to diversify their product mix.

The company reported gross NPA of 2.3 percent as on June 30, 2019, March 31, 2019 and March 31, 2018. The asset quality challenges faced by the company is mainly due to the delinquencies witnessed in their two wheeler portfolio, but yet GNPA and NNPA levels have been maintained at same levels for the past 2 years.

The company primarily focuses on financing secured high yield assets to self-employed customers with limited banking activities which supports its profitability. The company reported a healthy return on average assets (RoAA) of 5.07 percent in FY2019 as compared to 4.85 percent in FY2018. This is primarily because the company operates through a DSA based model wherein the operating expenses is limited. The net interest margins (NIMs) for AFL remained at 10.8 percent for FY2019 as compared to 10.9 percent for FY2018.

Acuite believes that the company's ability to scale up its operations while maintaining healthy asset quality and profitability metrics will remain a key monitorable.

• Concentrated geographical presence

AFL has presence across three business segments namely two wheeler financing, three/four wheeler financing and loans against property (LAP) towards SME borrower base, operating in the states of Rajasthan, Maharashtra, Madhya Pradesh and Gujarat. The company's operations are exposed to risks inherent in geographically concentrated portfolio as majority of its operational presence is in Rajasthan which comprised 97 percent of its loan portfolio as on June 30, 2019.

The key risk emanating from a concentrated geographical mix is that the cashflows of the borrowers are dependent on the level of economic activity in the region. Occurrence of events such as economic slowdown or any major natural calamity in the state or shifting of industrial activity to other geographies could disrupt the cash flows of the borrowers, thereby impacting credit profile of AFL's borrowers. While the company has expanded its operations to Gujarat, Madhya Pradesh and Maharashtra, Rajasthan will continue to dominate the book over the medium term.

Acuite believes that the company will continue to be exposed to risks inherent in geographically concentrated portfolio.

Rating Sensitivities

- Significant deterioration in leverage indicators
- Significant deterioration in asset quality and profitability metrics

Material Covenants: None

Liquidity Position: Adequate

AFL's liquidity profile remains adequate given their financial flexibility. The Company had adequately matched asset liability profile as on June 30, 2019 with no cumulative negative mismatches in any of the buckets upto 5 years. The company had working capital lines of Rs. 28 Cr. which was 97 percent utilised in 13 months ended August 19, 2019. The high utilisation in cash credit lines is indicative of limited buffers to meet any business needs or in case of any future mismatches.

Acuite believes that AFL's ability to raise funds at a competitive rates and maintain healthy liquidity buffers to support any exigencies especially given the current operating environment for NBFCs will remain critical.

Outlook: Stable

Acuite believes that AFL will maintain a 'Stable' credit profile over the near to medium term on account of established presence in the financial services industry and experienced management. The outlook may be revised to 'Positive' in case of significant growth in the loan portfolio while maintaining asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of significant deterioration in asset quality or moderation in profitability or stretch in liquidity profile.

About the Rated Entity - Key Financials:

Parameters	Unit	FY19(Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	76.01	58.97	45.45
Total Income*	Rs. Cr.	7.24	5.51	3.04
PAT	Rs. Cr.	3.42	2.53	1.05
Net Worth	Rs. Cr.	20.86	17.13	14.06
Return on Average Assets (RoAA)	(%)	5.07	4.85	2.66
Return on Average Net Worth(RoNW)	(%)	18.01	16.25	7.83
Total Debt/Tangible Net Worth (Gearing)	Times	2.59	2.37	2.12
Gross NPA	(%)	2.32	2.29	2.53

Net NPA	(%)	1.95	1.94	2.09
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* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
November 21 , 2018	Cash Credit	Long Term	25.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+*)
	Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	0.70	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	9.72	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	3.47	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	2.44	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.03	ACUITE BBB-/Stable (Assigned)
	Proposed bank facility	Long Term	1.64	ACUITE BBB-/Stable (Assigned)
January 16, 2018	Cash Credit	Long Term	21.00	ACUITE BB+ Issuer not cooperating*
September 14, 2016	Cash Credit	Long Term	21.00	ACUITE BB+/Stable (Assigned)

*The issuer did not co-operate; Based on best available information.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	NA	NA	NA	25.00	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	NA	NA	NA	3.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	NA	NA	NA	0.7	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	NA	NA	NA	1.67	ACUITE BBB- / Stable (Reaffirmed)

Term Loan	NA	NA	NA	0.82	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	NA	NA	NA	2.22	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	NA	NA	NA	6.11	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	NA	NA	NA	1.81	ACUITE BBB- / Stable (Assigned)
Term Loan	NA	NA	NA	1.81	ACUITE BBB- / Stable (Assigned)
Term Loan	NA	NA	NA	3.56	ACUITE BBB- / Stable (Assigned)
Term Loan	NA	NA	NA	1.50	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	NA	NA	NA	1.8	ACUITE BBB- / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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