

Press Release

AKME Fincon Limited

June 25, 2020

Rating Reaffirmed and Assigned



Total Facilities Rated	Rs.75.00 crore
Total Bank Facilities Rated	Rs.50.00 crore
Long Term Rating	ACUITE BBB- / Negative (Reaffirmed; Outlook revised from Stable)
Proposed Secured Redeemable Non-convertible debentures	Rs.25.00 crore
Long Term Rating	ACUITE BBB-/ Negative (Assigned)

*Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.50.00 Cr. bank facilities of Akme Fincon Limited (AFL). The outlook is revised to '**Negative**' from '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.25.00 Cr. Proposed secured redeemable Non-convertible debentures of Akme Fincon Limited (AFL). The outlook is '**Negative**'.

Reasons for outlook revision from Stable to Negative

The outbreak of the COVID-19 virus and the continued lockdowns have impacted the operations of various business units on a pan India basis. Since the activities of most of the borrowers have been disrupted, it has impacted their cash flows. Any significant impairment in the credit profiles of the borrowers is expected to translate into asset quality pressures for players like AFL. While nationwide lockdowns have been gradually lifted from end of May 2020 onwards, there are still restrictions on movement of men and material in certain geographies, especially in red zone areas. The collection efficiency is also impacted due to logistical challenges in reaching out to borrowers.

AFL is engaged in financing of three product segments namely:

- Financing of two wheeler
- Financing of pre-owned and used three wheelers, pre-owned four wheelers, pre-owned commercial vehicles
- Loans against property towards SME borrowers.

Two wheeler financing comprises around 72 percent of total loan portfolio of Rs.71.1 Cr. as on march 31, 2020 (provisional), followed by LAP loans towards SME borrowers accounting for ~24 percent and remaining accounting for three wheeler, four wheeler and commercial vehicle loans. AFL's MSME borrowers comprise small traders, retailers, businessmen and other local small business operators. The MSME segment is one of the more affected segments in the recent lockdown and is expected to face further pressures over the near term. The company majorly operates in Rajasthan, with ~97 percent of its loan book being concentrated in Rajasthan. Even among Rajasthan, ~49 percent of portfolio outstanding was concentrated in Udaipur district as on March 31, 2020. Around 70 percent of AFL's portfolio was under moratorium till May 2020 on account of COVID-19 crisis. AFL has received requests from most of its borrowers to extend the moratorium further till August 31, 2020. The company has further extended moratorium to ~70 percent of its borrower base till August 31, 2020. Acuite believes that impact on asset quality will be visible only after the expiry of

moratorium period i.e. third quarter of FY 2021.

AFL's collections during April, 2020 and May, 2020 were Rs. 0.59 Cr. crore and Rs. 0.84 Cr. respectively, i.e. ~12 percent of the scheduled collections for April 2020 and ~17 percent of the scheduled collections for May 2020. Since AFL's collections from borrowers have significantly declined, their ability to make payments as per original terms has been severely impaired. AFL's scheduled collections are around Rs. 4.9 Cr. on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs.1.6 Cr. The scheduled obligations of AFL vis. a vis. other NBFCs are lower since majority of AFL's borrowings (~59 percent of total borrowings) are under CC facilities. However, it is pertinent to note that there is limited room available in utilisation of CC facilities (utilised around 99 percent on an average for the last 7 months ended March 31, 2020).

AFL had sought moratorium from all its lenders and had received the same till May 31, 2020. With RBI announcing further extension of moratorium till August 31, 2020, AFL had sought further extension from all its lenders till August 31, 2020. While majority of the term loan lenders have extended further moratorium till August 31, 2020, remaining term loan lenders are yet to communicate their stance.

Acuite believes that its near term liquidity pressures will continue to be elevated till AFL attains optimal collection efficiency. Considering the economic background, the liquidity challenges are expected to accentuate over the near term till AFL pumps in additional long term funding (either through equity or long term debt). Acuite believes that AFL's collection efficiency is likely to improve only in a gradual manner and hence in the event of challenges in obtaining additional funding either through debt or equity, AFL's liquidity pressures could intensify. AFL is currently in discussion with its lenders to arrange for long term funds under TLTRO and other special liquidity facility.

In view of above, there will be three key rating monitorables: Firstly, the ability to contain the asset quality pressures and achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the management of the liquidity buffers since, the stance of the remaining term loan lenders to extend further moratorium will be critical till collection efficiency sufficiently improves. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or through long term debt.

About AFL:

AFL (Akme Fincon Limited), incorporated in 1994, is an Udaipur, Rajasthan, based non-banking finance company (NBFC) promoted by Anil Kumar Jain. The company is engaged in extending financing of two wheelers, three wheelers, commercial vehicles and loan against property (LAP) towards SME borrowers.

AFL is a part of the AKME group which is having presence of over two decades in financial services. AKME group primarily comprises of three companies – AKME Star Housing Finance Limited (ASHFL), AKME Fintrade (India) Limited (AFIL) and AKME Fincon Limited (AFL). The day to day operations are managed by Mr. Anil Kumar Jain, who is the managing director of AFL. The company presently operates through a network of 38 branches spread across Rajasthan, Madhya Pradesh, Maharashtra and Gujarat as on March 31, 2020, with majority of their operations in Rajasthan.

Analytical Approach:

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

Acuite has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuite has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. The company has confirmed to Acuite that they have received principal moratorium from all of its lenders till May 2020 and have served only the interest payments for April and May 2020.

Acuité believes that, this slippage of non-payment of principal is attributable to the ongoing crisis and hence has not construed the non-payment of principal for April and May 2020 as a credit event while arriving at the rating decision. Since Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- **Established track record of lending with focus on vehicle financing; scale of operations continues to be at modest level:**

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 38 branches as on March 31, 2020. The company is part of AKME group which was promoted by Mr. Nirmal Kumar Jain, Mr. Anil Kumar Jain and late Mr. Mohan Lal Nagda. The day to day operations of AFL are managed by Mr. Anil Kumar Jain. 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 (a non-deposit taking NBFC) and has gradually expanded its operations through group companies namely 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.

AFL's loan book stood at Rs.71.10 Cr. as on March 31, 2020 (provisional) as against Rs.70.38 Cr. as on March 31, 2019. Of the overall loan portfolio as on March 31, 2020, two wheeler financing accounted for ~72 percent, followed by loan against property (LAP) towards SME borrowers for ~24 percent, three wheelers, four wheelers and commercial vehicle loans of ~4 percent. Going forward the company plans to maintain a product mix with focus on extending Loans against property (LAP) to SME borrowers.

Acuité believes that AFL will continue to benefit from its established presence in the financial services industry along with the experienced promoters.

Weaknesses

- **Expectations of elevated stress in asset quality and liquidity pressures**

AFL's key product offerings are spread across financing through Loan against property towards MSME borrower base, vehicle financing - commercial vehicles, two wheelers, three wheelers and four wheelers. Around 76 percent of AFL's portfolio of Rs. 71.10 crore as on March 31, 2020 (provisional) accounts for vehicle financing and ~24 percent of LAP portfolio towards MSME borrowers. Majority of the AFL's MSME borrowers comprise small traders, retailers, businessmen and other local small business operators. The activities of most of these small MSME units have been impacted because of the on-going lockdown and there are restrictions on movement of men and material. While the credit profile of these borrowers have been impacted the magnitude of impairment will be known only after the expiry of the current moratorium period. AFL's overall credit profile is susceptible to concentration towards two wheeler loans which in turn are facing their own risks and challenges. Further, majority of AFL's portfolio is extended to self-employed individuals for business purposes, the serviceability of these loans is directly dependent on the level of economic activity in the region. Alone Udaipur district comprises around 47 percent of AFL's outstanding loan portfolio as on March 31, 2020 and since majority of AFL's portfolio comprises of two wheeler loans, further stress on asset quality is likely to be expected.

AFL's Gross Non-Performing Assets (GNPA) increased to Rs. 1.68 Cr. as on March 31, 2020

(provisional) from Rs.1.63 Cr. as on March 31, 2019. Of the overall GNPA of Rs. 1.68 Cr. as on March 31, 2020 (provisional), ~91 percent was contributed by two wheeler segment followed by ~5 percent from commercial vehicle segment and remaining from three/four wheeler segment. Any prolonged time taken for resumption of normal activities, may lead to long term stress on their asset quality and elevated credit cost.

In view of the challenges in maintaining collection efficiency, the company had sought a moratorium from all its lenders. Presently, the company has extended a moratorium to 70 percent of its borrowers and is availing a moratorium from most of its lenders. The extent of mis-matches over the next one or two quarters will depend on the ability to scale up its collections, commensurate with its debt service obligation and disbursements. Any challenges in getting additional moratorium from remaining of its lenders and/or arranging for long term funding to bridge the near term mis-matches could impact the liquidity profile.

Acuite believes that containing additional slippages and the ability to raise long term debt to support its business growth will be crucial.

Rating Sensitivities

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency
- Movement in asset quality and movement in liquidity buffers
- Stance of lenders in respect of moratorium
- Changes in regulatory environment

Material Covenants:

AFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client via mail dated June 11, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Stretched

AFL's borrowings of Rs.47.19 Cr. as on March 31, 2020 comprise mainly cash credit facilities of ~59 percent and term loans from NBFCs/FIs and banks of ~40 percent and remaining comprising of debt from promoters. AFL's gearing as on March 31, 2020 (provisional) was around 1.81 times. The borrowings of AFL have maturity upto 36 months. AFL had obtained moratorium from all of their term loan lenders till May 2020 where AFL had only served interest payments for month of April and May 2020. With RBI announcing further extension of moratorium till August 31, 2020, AFL had sought further extension from all its lenders. As informed by AFL, the company has received moratorium from majority of their term loan lenders till August 31, 2020, the remaining are yet to communicate their stance.

AFL's collections during April and May, 2020 were Rs. 0.59 Cr. and Rs. 0.84 Cr. respectively, i.e. ~12 percent and ~17 percent of the scheduled collection for April and May 2020, respectively. The collections are currently subdued and any improvement in collections are expected to be gradual. In the event of longer than expected time in achieving optimal collection efficiency or challenges in obtaining moratorium extension from remaining term loan lenders or arranging for long term funding support (either through debt or equity), liquidity pressures for AFL could intensify.

Going by the current developments, it appears that the improvement in collections is likely to be gradual. AFL is in talks with various lenders to raise long term debt under the TLTRO route and through the special liquidity facility. The ability of AFL to raise long term funding (equity/debt) and timely rollover of AFL's CC facilities will also influence its stable liquidity profile.

Outlook: Negative

Acuite believes that AFL's credit profile is likely to be impacted over the near term on account of increased possibility of elevated asset quality pressures and consequent impact on profitability. The outlook may be revised to 'Stable' in case AFL is able to demonstrate significantly lower than expected deterioration in asset quality while improving its liquidity buffers. Conversely, if the company faces challenges in maintaining its liquidity profile due to wider mis-match in cash inflows and outflows or if the asset quality challenges intensifies significantly, it could impart negative bias to the rating.

About the Rated Entity - Key Financials:

Parameters	Unit	FY20 (Prov)	FY19(Actual)
Total Assets	Rs. Cr.	75.68	76.01
Total Income*	Rs. Cr.	8.21	7.24
PAT	Rs. Cr.	4.13	3.42
Net Worth	Rs. Cr.	26.09	20.86
Return on Average Assets (RoAA)	(%)	5.44	5.07
Return on Average Net Worth (RoNW)	(%)	17.57	18.01
Total Debt/Tangible Net Worth (Gearing)	Times	1.81	2.59
Gross NPA	(%)	2.36	2.32
Net NPA	(%)	1.97	1.95

* 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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
November 20 , 2019	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	0.7	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	1.67	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	0.82	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	2.22	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	6.11	ACUITE BBB- / Stable (Reaffirmed)

	Term Loan	Long Term	1.81	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.81	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	3.56	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	1.8	ACUITE BBB- / Stable (Reaffirmed)
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- /Negative (outlook revised from stable) (Reaffirmed)
Cash Credit	NA	NA	NA	3.00	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	Not Available	NA	Not Available	0.7	ACUITE BBB- (Withdrawn)
Term Loan	31-08-2017	NA	05-11-2020	0.83	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	Not Available	NA	Not Available	0.82	ACUITE BBB- (Withdrawn)
Term Loan	05-01-2018	NA	09-03-2021	1.39	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	02-08-2018	NA	25-09-2021	4.44	ACUITE BBB- /Negative (outlook

					revised from stable) (Reaffirmed)
Term Loan	26-11-2018	NA	25-01-2023	1.39	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	26-11-2018	NA	25-01-2023	1.39	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	01-09-2018	NA	10-11-2021	2.73	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	27-09-2018	NA	27-11-2020	0.75	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Term Loan	07-05-2019	NA	05-07-2022	3.78	ACUITE BBB- /Negative (Assigned)
Term Loan	03-12-2019	NA	05-02-2022	1.78	ACUITE BBB- /Negative (Assigned)
Proposed bank facility	NA	NA	NA	3.52	ACUITE BBB- /Negative (outlook revised from stable) (Reaffirmed)
Proposed Secured Redeemable Non- Convertible Debentures	NA	NA	NA	25.00	ACUITE BBB- /Negative (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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