

Press Release

**A. K. Capital Finance Private Limited
(AKCFPL)**



7 February, 2018

Rating Assigned

Total facilities	Rs. 550.00 Cr.
Instruments Rated*	Rs. 100.00 Cr.
Long Term Rating	SMERA Provisional AA (SO#)/Stable (Assigned)
Instruments Rated*	Rs. 250.00 Cr.
Long Term Rating	SMERA AA (SO#)/Stable (Converted from Provisional rating to Final rating)
Instruments Rated*	Rs. 200.00 Cr.
Long Term Rating	SMERA AA (SO#)/Stable (Reaffirmed)

*Refer Annexure for details

Credit Enhancement on account of first charge of Debenture Trustee over specific identified Investments/Receivables (i.e., Business Assets) of the Company.

Rating Rationale

SMERA has assigned rating of **SMERA Provisional AA (SO) (read as SMERA Provisional double A (Structured Obligation))** to the Rs. 100.00 crore Proposed Secured Redeemable Non-Convertible Debenture Issue of AKCFPL.

SMERA has also reaffirmed the rating of **SMERA AA (SO) (read as SMERA double A (Structured Obligation))** assigned to the Rs. 200 crore Secured Redeemable Non-Convertible Debenture Issue by AKCFPL. The outlook is '**Stable**'.

Further, SMERA has converted the provisional rating assigned to the NCD issue aggregating Rs. 250.00 crore of A.K. Capital Finance Private Limited (AKCFPL) to final rating of **SMERA AA (SO) (read as SMERA double A (Structured Obligation))**. The outlook is '**Stable**'. The conversion of the rating from a provisional rating to a final rating reflects the fulfilment of the criteria laid out by SMERA in its press release dated 21st June, 2017. However, the issuance has been only to the extent of Rs. 107 crore for this NCD.

AKCFPL is a (Non-Banking Financial Company - Systemically Important Non-Deposit) NBFC-ND-SI engaged in the business of extending advances to corporate borrowers with high credit quality and lending against highly rated securities. AKCFPL is a subsidiary of A.K. Capital Services Limited (AKCSL) - a SEBI registered Merchant Bank.

Key rating drivers

Strengths

SMERA Ratings Limited

Presence of Structured Payment Mechanism (SPM):

The rating is driven by the Structured Payment Mechanism (SPM) to be put in place by AKCFPL to ensure timely servicing of interest and principal obligations. The proposed NCD issue aggregating Rs. 100.00 crore shall be secured throughout its tenure by the presence of a Debt Service Reserve Account (DSRA) equivalent to 13 per cent of the principal amount outstanding of the NCDs in the form of Bank Fixed Deposits, "AAA" Rated Liquid Bonds, bank guarantee, in any combination. AKCFPL will also be required to maintain a minimum asset cover of 1.05 times at all times during the currency of the NCD. The debenture trustee will be authorised to liquidate the DSRA or invoke the bank guarantee in case the designated payment account is not funded by T-1 days for the coupon amount due on the forthcoming due date in case of a bank fixed deposit; T-2 days in case of a bank guarantee and T-3 days in case of 'AAA' rated debt/sovereign securities liquid bonds. The debenture trustee may invest the above amount temporarily in bank fixed deposits and would be responsible for timely availability of such funds on the due date, T.

In case the DSRA is utilised in full or part or the value of the DSRA is diminished below the minimum required, AKCFPL will be required to replenish the same within seven days of the occurrence of such an event. The rating centrally assumes adherence to the SPM by the debenture trustee and AKCFPL on an ongoing basis.

Healthy asset quality:

AKCFPL's major earning assets constitute central government securities, highly rated corporate papers and advances to corporates. As on 31 March, 2017, a significant portion (36.06 per cent) of AKCFPL's earning assets comprised Central Government Securities, AAA (triple A) & AA (double A) rated debt instruments. The balance (63.94 per cent) comprised advances to borrowers with high credit quality or investment in their debt instruments. AKCFPL has demonstrated ability in identifying profitable lending opportunities which will help keep its asset quality healthy. AKCFPL reported nil gross non- performing assets over the last three financial years. Its prudent lending policies, robust risk management practices and strong market intelligence derived from its longstanding experience in the debt market will support its ability to scale up its operations and maintain healthy asset quality.

Diversified funding profile:

The rating draws support from AKCFPL's ability to mobilise financial resources from various financial institutions, capital markets and from the CBLO (Collateralized Borrowing and Lending Obligations) segment of the money market. As on 31 March, 2017, 36.71 per cent of the total borrowings were from the CBLO market and from Repo Transactions.

AKCFPL's ability to raise funds from several sources has enabled the company to maintain a low weighted average cost of funds (WACF) vis-à-vis its yield on advances/investments. The effective WACF stood at 5.84 per cent in FY2017 as compared to 7.55 per cent in FY2016.

The company avails working capital limits (against securities) and term loans from banks and financial institutions to fund its exposure in various corporates. AKCFPL's borrowing spreads across various tenures are based on the maturity profile of its earning assets. SMERA believes that AKCFPL's diverse funding profile will substantially support its ability to grow its AUM over the medium term.

Comfortable capitalisation and prudent capital structure:

AKCFPL reported comfortable Capital Adequacy Ratio (CAR) of 38.17 per cent as on 30 September 2017 as compared to 34.24 per cent as on 31 March, 2017. SMERA expects AKCFPL's credit risk profile to continue to be supported by its healthy net worth of Rs. 406.08 crore as on 31 March 2017 as against Rs. 353.49 crore on 31 March, 2016.

The increase in networth is mainly on account of healthy internal accruals of the company coupled with equity infusion of approximately Rs.20.00 crore by promoters in FY2016-17. Based on existing capitalisation levels, SMERA believes that AKCFPL has adequate flexibility to go in for additional borrowings to support increase in AUM. SMERA expects AKCFPL's net leverage (net debt to networth) ratio to remain comfortable at under four times for the year ended 31 March, 2018.

Weaknesses**Susceptibility of performance to the debt segment of capital markets:**

AKCFPL has established track record in the debt capital market. Its performance is linked to the demand for credit by corporates which in turn is dependent on the level of economic activity. Hence, AKCFPL's performance is largely influenced by economic cyclicity and other macroeconomic factors like GDP growth rate, inflation and expected movement in interest rates. Adverse events such as sharp spike in inflationary pressures or hardening of interest rates could translate into muted credit offtake, thereby translating into lower transaction volumes for AKCFPL.

AKCFPL's Assets under Management (AUM) (including current investments, non-current investment, loans & advances and inventory of debt securities) increased to Rs. 1,982.84 crore as on 31 March, 2017 from Rs. 1515.65 crore as on 31 March, 2016. The AUM as on 30 September, 2017 stood at Rs. 1775.26 crore.

AKCFPL has traditionally focused on low risk segments such as lending against highly rated corporate papers, government securities and fully collateralised loans. Since the yields advances against high rated debt instruments are typically lower for the company, going forward, AKCFPL plans to increase its focus on emerging corporates and NBFC/MFI by investing in their NCDs. While the risk involved in such transactions is relatively higher, this is expected to result in higher yields and lower dependence on lending against debt instruments for its earnings.

The government has been focusing on deepening of corporate debt markets and reducing the dependence of corporate borrowers on the banking system. The deepening of the corporate debt market is expected to augur well for players like AKCFPL – who primarily focus on the debt market segment.

Risks inherent in the wholesale lending business:

AKCFPL has been lending mainly to high quality corporates against highly rated securities. Its top 20 clients accounted for 30 per cent of its exposure as on 31 March, 2017. While AKCFPL has been following prudent risk management practices with respect to lending, collateral events like deterioration in credit quality of borrowers and decline in security prices can impact its performance with regard to its asset quality and earnings profile.

SMERA believes that AKCFPL will continue to be influenced by risks emanating from the relatively higher degree of concentration in its portfolio. Its ability to diversify its exposure across borrowers while maintaining asset quality shall be a key rating sensitivity factor.

Analytical approach:

SMERA has taken a standalone view of the above entity. The standalone rating has been notched up on account of the credit enhancement in the form a DSRA equivalent to 13 per cent of the principal amount outstanding on the NCD.

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Policy on Provisional Ratings: <https://www.smera.in/provisional-ratings.htm>

Outlook - Stable

SMERA believes that AKCFPL will maintain a stable outlook owing to the structured payment mechanism, healthy asset quality, comfortable earnings and capitalisation level. The outlook may be revised to 'Positive' in case of significant and higher than expected growth in its earnings assets and margins while maintaining its asset quality. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its profitability margins or increased exposure to high assets risk segments.

About the Rated Entity - Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	2052.52	1561.29	948.90
Total Income	Rs. Cr.	70.56	48.78	45.77
PAT	Rs. Cr.	31.09	21.60	21.07
Net Worth	Rs. Cr.	406.08	353.49	301.90
Return on Average Assets (RoAA)	(%)	1.72	1.72	2.47
Return on Average Net Worth(RoNW)	(%)	8.19	6.59	7.23
Total Debt/Tangible Net Worth (Gearing)	Times	4.04	3.40	2.13
Gross NPA	(%)	Nil	Nil	Nil
Net NPA	(%)	Nil	Nil	Nil

Status of non-cooperation with previous CRA (if applicable): Not applicable

Any other information: Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
22 June, 2017	Secured Redeemable Non-Convertible Debentures	Long term	20.00	SMERA AA (SO) /Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures	Long term	25.00	SMERA AA (SO) /Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures	Long term	26.00	SMERA AA (SO) /Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures	Long term	5.00	SMERA AA (SO) /Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures	Long term	2.00	SMERA AA (SO) /Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures	Long term	5.00	SMERA AA (SO) /Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures	Long term	15.00	SMERA AA (SO) /Stable (Assigned)
	Proposed Secured Redeemable Nonconvertible Debentures	Long term	2.00	SMERA AA (SO) /Stable (Assigned)
	Proposed Secured Redeemable Nonconvertible Debentures	Long term	100.00	SMERA AA (SO) /Stable (Assigned)
21-June -2017	Proposed Secured Redeemable Nonconvertible Debentures	Long term	150.00	SMERA Provisional AA (SO) /Stable(Reaffirmed)
	Proposed Secured Redeemable Nonconvertible Debentures	Long term	100.00	SMERA Provisional AA (SO) /Stable (Assigned)
31-May 2017	Proposed Secured Redeemable Nonconvertible Debentures	Long term	150.00	SMERA Provisional AA (SO) /Stable (Assigned)
8-March 2017	Proposed Secured Redeemable Nonconvertible Debentures	Long term	100.00	SMERA Provisional AA (SO) /Stable(Reaffirmed)
	Proposed Secured Redeemable Nonconvertible Debentures	Long term	100.00	SMERA Provisional AA (SO) /Stable (Assigned)
1-March 2017	Proposed Secured Redeemable Non-convertible Debentures	Long term	100.00	SMERA Provisional AA (SO)/Stable

(Assigned)

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Secured Redeemable Nonconvertible Debentures	NA	NA	NA	100.00	SMERA Provisional AA (SO)/Stable (Assigned)
Secured Redeemable Non-Convertible Debentures	23/06/2017	9.50%	23/06/2027	5.00	SMERA AA (SO) /Stable (Assigned)*
Secured Redeemable Non-Convertible Debentures	10/08/2017	9.00%	10/08/2024	65.00	SMERA AA (SO) /Stable (Assigned)*
Secured Redeemable Non-Convertible Debentures	09/11/2017	8.80%	9/11/2022	5.00	SMERA AA (SO) /Stable (Assigned)*
Secured Redeemable Non-Convertible Debentures	06/12/2017	9.40%	06/12/2024	32.00	SMERA AA (SO) /Stable (Assigned)*
Proposed Secured Redeemable Non-Convertible Debentures	NA	NA	NA	143.00	SMERA AA (SO) /Stable (Assigned)*
Secured Redeemable Non-Convertible Debentures	09/03/2017	9.40%	09/09/2021	20.00	SMERA AA (SO) /Stable (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	07/03/2017	9.60%	07/03/2024	25.00	SMERA AA (SO) /Stable (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	09/03/2017	9.60%	09/03/2024	26.00	SMERA AA (SO) /Stable (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	07/03/2017	9.70%	07/03/2027	5.00	SMERA AA (SO) /Stable (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	20/03/2017	9.50%	20/03/2022	2.00	SMERA AA (SO) /Stable (Reaffirmed)

Secured Redeemable Non-Convertible Debentures	20/03/2017	9.60%	20/03/2024	5.00	SMERA AA (SO) /Stable (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	21/03/2017	9.60%	21/03/2024	15.00	SMERA AA (SO) /Stable (Reaffirmed)
Proposed Secured Redeemable Nonconvertible Debentures	NA	NA	NA	2.00	SMERA AA (SO) /Stable (Reaffirmed)
Proposed Secured Redeemable Nonconvertible Debentures	NA	NA	NA	100.00	SMERA AA (SO) /Stable (Reaffirmed)

*converted from provisional rating

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in Leena Gupta, Rating Analyst, Tel: +91-22-6714 1172 Email: leena.gupta@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.