

Press Release

A K Services Private Limited

July 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 69.00 Cr.
Long Term Rating	ACUITE A-/ Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 69.00 Cr. bank facilities of A K Services Private Limited (AKSPL). The outlook is '**Stable**'.

About AK Capital Group:

AK Capital Group is promoted by Mr. A K Mittal who has more than two decades of experience in the fixed income market in India. The group's flagship company 'A K Capital Services Limited' (AKCSL) is the holding company to key subsidiaries of the group and is a registered merchant banker since 1998 and investment advisor. AKCSL along with its subsidiaries is engaged in investment advisory, merchant banking, non-banking financial operations, and financial advisory along with rendering wealth management services. AKCSL is listed on BSE and is ~68 percent held by promoter and promoter group as on March 31, 2019.

AKSPL was incorporated in 1986 and is directly owned by Mr. A K Mittal and family having ~99.7 percent holding as on March 31, 2019. The company is a financial services company engaged in debt advisory and dealing in Fixed Income Market securities. The company primarily undertakes exposures linked to underwriting activity of A K Group of companies.

Analytical approach:

Acuite has taken standalone view on AKSPL's business and financial profile and has further factored in group support. The group support is on the back of common promoter i.e. Mr. A K Mittal, shared brand name, and significant operational synergies with A K Capital Group. A K Capital Group refers to the flagship company 'A K Capital services Limited' (AKCSL) along with its subsidiaries, namely, A K Capital Finance Limited (ACUITE AA (SO)), A K Stockmart Private Limited, A K CAPITAL (SINGAPORE) PTE. Limited and A. K. Wealth Management Private Limited.

Key Rating Drivers:

Strengths:

• Benefits derived from association with AK Group:

A K Group has presence of over two decades in the debt markets and is one of the leading players. The promoters of the group have demonstrated their expertise in merchant banking and financial advisory services. The group commenced operations from Corporate Bond Syndication and has gradually diversified its franchise by offering Loan Syndication, Project Finance, Management of Debt Public Issues and Wealth Management. The group is offering services namely Private Placement of Hybrid Instruments, QIP Management, Venture Capital Funds, Management and mobilisation of public and issues of tax-free and taxable bonds along with other services for more than 2 decades. The group has consolidated its presence in the market with its strong sourcing, structuring, underwriting, and distribution capabilities for debt issues through both public and private placements which has resulted in strong tie-ups with reputed institutional players. The group's overall business profile is supported by AKCSL and AKCFL.

AKCFL is engaged in extending corporate credit and the key offerings include Loan against debt Security, Debt IPO Funding (including debt public issue), asset backed and cashflow backed

financing and structured funding.

AKSPL benefits from the established and diversified presence of the group in domestic capital markets. The core business of AKSPL is aligned to the activities of the group. The company initiates exposure of debt securities in the primarily market and down sells it to its clients i.e. provident funds, pension funds, Mutual funds, corporates and individuals. The company's revenue mix also comprises of fee income which is generated from debt placements. The company reported revenues of Rs. 11.15 Cr. in FY2019 as against Rs. 6.66 Cr. in FY2018.

Acuité believes that the group's strong market presence in the domestic debt market and diversified offerings, established relationships with marquee clients and investors should support AKSPL's business profile over the near to medium term.

• **Prudent capital structure:**

AKSPL is directly held by Mr. A K Mittal and family with ~99.7 percent holding. The company's net worth as on March 31, 2019 stood at Rs. 38.02 Cr. as against Rs. 33.93 Cr. as on March 31, 2018. The company's borrowings include term loans and secured overdraft facility of Rs. 30.00 Cr. which is 43 percent utilised in the six months ended May 31, 2019. The company's gearing stood at 1.66 times as on March 31, 2019 as against 1.43 times as on March 31, 2018.

Acuité expects the company to maintain prudent capital structure over the medium term.

Weaknesses:

• **Susceptibility of performance to counterparty risk and volatility in capital markets:**

AKSPL's key earning assets includes fixed income earning assets. Since these bonds are issued by corporates (Highly rated bonds), the company remains exposed to credit risks i.e. risk of deterioration in the credit quality of the issuer. The occurrence of events impacting the credit quality of the issuer, is likely to result in challenges in unwinding the exposures to the bond or debentures. Thereby impacting the operating performance of AKSPL.

AKSPL's business performance is also linked to volume of activity in the capital market, especially debt segment. The performance is influenced by economic cyclicalities and other macroeconomic factors such as 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 volumes in the bond markets, thereby translating into lower transaction volumes.

The volumes in the debt segment are influenced by factors such as interest rate movement, liquidity and regulatory environment. The ability to generate trading profit/sell down the securities in the portfolio in a profitable manner may be impacted given the tight liquidity conditions and risk aversion in the debt capital market.

Acuité believes that the overall performance of AKSPL will remain sensitive to risks emanating from volatile capital markets, interest rate movements and performance of its portfolio of investments.

Liquidity Position:

AKSPL's liquidity profile is adequate supported by tied up working capital limit of Rs. 30.00 Cr., which was on an average 43 percent utilised in the last six months ended May 2019. The company has a term loan of Rs. 48.00 Cr. of which Rs. 39.00 Cr. is outstanding as on March 31, 2019. It also benefits from the back-up available in the form of liquid investments in the portfolio, which can be liquidated in case of future exigencies.

Outlook: Stable

Acuite believes that AKSPL's business and financial profile will remain 'Stable' over the medium term supported by benefits derived from association with AK Group as well as prudent capital structure. The outlook may be revised to 'Positive' in case of significant and sustained growth in the revenues while maintaining its profitability metrics and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in operating performance or sharp deterioration in capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	103.9	82.4	66.4
Total Income*	Rs. Cr.	5.8	0.9	4.4
PAT	Rs. Cr.	4.1	0.5	3.0
Net Worth	Rs. Cr.	38.0	33.9	33.4
Return on Average Assets (RoAA)	(%)	4.4	0.7	4.5
Return on Average Net Worth (RoNW)	(%)	11.3	1.5	8.0
Total Debt/Tangible Net Worth (Gearing)	Times	1.7	1.4	1.0

*Total income equals to Total Income net off interest expense

Status of non-cooperation with previous CRA

None

Any other information

None

Applicable Criteria

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-10.htm>
- Group support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Dat	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	30.00*	ACUITE A-/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A-/Stable (Assigned)

*Working capital demand Loan of Rs. 30 Cr. is sublimit under Secured overdraft

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About Acuité Ratings & Research:

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