

Press Release

A K Capital Services Limited

April 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	650.00	ACUITE AA- Stable Assigned	-
Bank Loan Ratings	73.00	ACUITE AA- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	723.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 73.00 Cr. bank facilities of A.K. Capital Services Limited (AKCSL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 650.00 Cr. bank facilities of A.K. Capital Services Limited (AKCSL). The outlook is '**Stable**'.

The rating factors in established presence & track record of AKCSL as a merchant banker in the debt capital market, experienced management, strong risk management systems and diverse base of institutional clients. The rating further factors in comfortable capital structure of AKCSL (on a consolidated basis) marked by networth and gearing of Rs. 722 Cr. and 1.73 times (adjusted for minority interest) as on September 30, 2021 (Provisional). The lending arm of the Group, AKCFL too exhibited healthy capitalization levels with CAR of 37.85% as on September 30, 2021. The rating also reflects the sound asset quality and prudent risk management practices of AKCFL (subsidiary of AKCSL). AKCFL reported NIL non-performing assets over the past three financial years and continued to maintain track record for six months ended September 30, 2021. The rating also factors in the demonstrated ability of the group to raise funds from banks and capital markets across various maturities at competitive rate, which has enabled them to optimise the cost of funding.

These strengths are partly offset by economic cyclicality and other macroeconomic factors in the debt market which can result in volatility in overall earnings profile. In terms of Private placement Issues, during the FY 2021 majority of issues were originated by the PSUs and the group had high concentration in merchant banking business with top 10 private placement deal in terms of Overall Volume, contributing nearly 81 percent of the total private placement deals during FY2021. On the lending front, AKCFL's top ten exposures accounted for 41 percent of its total exposures as on September 30, 2021. Further, the Group's performance is also susceptible to the economic cyclicality and other macroeconomic risks inherent in the debt capital market as reflected in consolidated total income of about Rs. 289 Cr. during FY2021 compared to Rs. 314 Cr. during FY2020.

About the Company and the Group

Incorporated in 1993, Mumbai based AKCSL, a SEBI registered Category I Merchant Banker, is promoted by Mr. A K Mittal. The company is engaged in merchant banking, investment and financial advisor related activities in the fixed income market 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 corporate debt raising through private placement of fixed income securities and initial public issue of bonds and debentures.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has taken consolidated view on the business and financial risk profile of A.K. Capital Services Limited (AKCSL) and its subsidiaries, A.K. Capital Finance Ltd (AKCFL), A.K. Stockmart Pvt. Ltd, Family Home Finance Pvt Ltd, A.K. Capital Corporation Pvt Ltd, A.K. Capital (Singapore) Pte. Ltd and A.K. Wealth Management Pvt Ltd. for analysing AKCSL's credit profile. This consolidation is in the view of the common promoters, shared brand name and strong financial and operation synergies.

Key Rating Drivers

Strength

Established presence in debt market

Incorporated in 1993, A.K. Capital Services Limited (AKCSL) is a SEBI registered Category-I Merchant Banker engaged in management of private placements as well as public issues and is one of the leading players in the corporate debt market segment. The merchant banking activities conducted by AKCSL involves corporate debt raising through private placement of fixed income securities and initial public issue of bonds and debentures. AKCSL managed 177 debt assignments of Rs.2,55,228 Cr. translating to a market share of 41.60% in FY2021 as against 147 debt assignments of Rs.2,57,475 Cr. translating to a market share of 55.9% in FY2020.. AKCSL has established strong relationship with diverse base of institutional clients including Indian Corporates, Banks, NBFCs, Fls, Provident & Pension Funds, Insurance Companies, Mutual Funds, AIFs and various fund houses. AKCSL along with its subsidiaries which are engaged in lending, investment and financial advisory services have demonstrated progressive presence in undertaking and executing transactions in debt market segments like Structure Financing & Corporate Debt Restructuring, Debt Portfolio & Private Wealth Management Services and Investment advisory & Retirement Trust Solutions.

Comfortable capitalization and gearing; diversified funding mix

On consolidated basis, AKCSL has healthy capitalisation levels marked by networth of Rs.684 Cr. (adjusted for minority interest) as on March 31,2021 (Rs.615 Cr. as on March 31,2020). The steady growth in networth is mainly supported by healthy internal accruals with cumulative surplus comprising about 81% of the networth as on March 31,2021. The Group has demonstrated ability of the group to raise funds from banks and capital markets across various maturities at competitive rate, which has enabled them to optimise the cost of funding. Of the outstanding borrowings of Rs.1388 Cr. as on March 31,2021, NCDs constituted ~48% followed by working capital facilities at ~34%, CBLO borrowings at ~9% and balance ~9% in the form of term loans from banks. The gearing ratio is comfortable at 2.03 times (adjusted for minority interest) as on March 31,2021 (1.43 times (adjusted for minority interest) as on March 31,2020). The gearing reduced to 1.73 times (adjusted for minority interest) as on

September 30, 2021 on the back of improvement in networth to Rs.722 Cr. coupled with decline in outstanding borrowings to Rs.1246 Cr. On standalone basis, AKCSL reported networth and gearing at Rs.429 Cr. and 0.34 times respectively as on September 30, 2021. Acuité believes that the current capital levels along with internal accruals for the Group provide sufficient room for medium-term growth of its multiple businesses along with the requirement of buffers for any asset quality shocks at AKCFL level.

Healthy asset quality; sound risk management practices

Incorporated in 2006, AKCFL, lending arm of the Group, is a Mumbai based systemically important non-deposit taking nonbanking financial company (NBFC-ND-SI) engaged in the business of lending to or investing in bonds of corporate borrowers with high credit quality and lending against highly rated securities. During FY2021, AKCFL increased exposure to private sector entities (mostly high investment grade entities) in the form of loans and advances and NCDs primarily driving up the AUM (AUM; including current investments, non-current investment, loans & advances and inventory of debt securities) to Rs.1,805 Cr. as on March 31, 2021 from Rs.1,291 Cr. as on March 31, 2020. The exposure to private sector entities stood at Rs.1036 Cr. (about 57% of AUM) as on March 31, 2021 as compared to Rs.722 Cr. (about 56% of AUM) as on March 31, 2020. The shift in the lending and investment strategy was mostly driven in response to the buoyant debt/credit market. Nonetheless, Acuite notes the Group's philosophy to not aggressively grow its investments instead churn it to reduce the concentration risk. Consequently, AKCFL reported NIL non-performing assets over the past three financial years and continued to maintain track record for six months ended September 30, 2021. While AKCFL has been following prudent risk management practices with respect to lending, collateral events like deterioration in the credit quality of borrowers and decline in security prices can impact its performance with regard to its asset quality and earnings profile. AKCFL has demonstrated the ability to identify any potential weakening of credit quality and accordingly unwind its exposure in a timely manner. Its market intelligence and its established presence as an intermediary in the fund raising segment help in maintaining the balance between yields and asset quality.

Acuité believes that AKCFL's 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.

Weakness

Susceptibility of performance to the debt segment of capital markets

AKCSL, at consolidated level, has presence in lending, investment and financial advisory services in the debt capital market with revenue from lending and investment activities comprising about 73% of total revenue and financial advisory services about 25% of total revenue for FY2021. The economic cyclicality and other macroeconomic risks inherent in the debt capital market can result in volatility in overall earnings profile of AKCSL as reflected in consolidated total income of about Rs.289 Cr. during FY2021 compared to Rs. 314 Cr. during FY2020. However, lower operating expenses mitigated the impact on profitability with AKCSL reporting consolidated Profit after Tax (PAT) of about Rs.75 Cr. during FY2021 compared to about Rs.51 Cr. during FY2020. Consequently, PAT Margin improved to 26% from 16% in this period. For H1FY2022, consolidated PAT stood at about Rs.41 Cr. on consolidated total income of about Rs.155 Cr. (consolidated PAT of about Rs.30 Cr. on consolidated total income of about Rs.123 Cr. during H1FY2021). Further, adverse events such as a sharp spike in inflationary pressures or hardening of interest rates could translate into muted credit off take. The Group has traditionally focused on low risk segments such as quality corporate papers, government securities and fully collateralized loans.

On a standalone basis, AKCSL reported higher profitability as reflected in profit after tax (PAT) of about Rs.25 Cr. during FY2021 compared to about Rs.19 Cr. during FY2020 mainly driven by uptick in dealing income derived from downselling of debt investments, contributing 28% of total income compared to 22% of total income in the like period. For H1FY2022, AKCSL reported PAT of about Rs.11 Cr. on total income of about Rs.44 Cr. (PAT of about Rs.11 Cr. on total income of about Rs.33 Cr. during H1FY2021).

Client concentration in merchant banking & wholesale lending businesses

In terms of Private placement Issues, during the FY 21 majority of issues were originated by the PSUs and the group had high concentration in merchant banking business with top 10 private placement deal in terms of Overall Volume, contributing nearly 81% of the total private placement deals during FY 2021. On the lending business front, AKCFL has primarily focused on the wholesale lending segment (mainly financial services and real estate focused HFCs) and hence the loans are relatively chunkier in nature, ticket size range between Rs.5 - 50 Cr. The performance of the borrowers is subject to the vulnerabilities in the underlying sectors. The key risks inherent in such wholesale lending activities is that slippages in one or two large accounts may impact the operating performance of the company for that period. While AKCFL has in the past successfully exited risky exposures and curtailed its overall exposure to private sector corporates, occurrence of the future credit events can have a bearing on the performance and profitability of the company. AKCFL's top ten exposures accounted for 41% of its total exposures as on September 30, 2021 (43% of its total exposures as on December 31, 2020). Given the strong presence in the debt capital market, AKCFL also regularly churns its investments to reduce the concentration risk in the portfolio. While AKCFL has been following prudent risk management practices with respect to lending, collateral events like deterioration in the credit quality of borrowers and decline in security prices can impact its performance with regard to its asset quality and earnings profile. Acuité, believes that AKCFL's future credit profile will be influenced by its ability to optimise the balance between high yields (i.e. more risky exposures) on one hand and healthy asset quality (i.e. low risk exposures) on the other. The ability to optimise its earnings while maintaining asset quality shall be critical. The maintenance of a healthy liquid profile on an ongoing basis (in the form of unencumbered cash or unutilised bank lines) will also be a key monitorable considering the wholesale nature of the business.

ESG Factors Relevant for Rating

A K Group has a diversified revenue stream with a majority portion accruing from the financial services sector. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to debt capital market to avoid fraud, insider trading and other anti-competitive behavior. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. For the industry, retention, and development of skilled manpower along with equal opportunity for employees is crucial. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The material of environmental factors is low for this industry.

AKCL's board comprises of a total of six directors out of which two are independent directors and one is a women director. The Group maintains adequate disclosures with respect to the various board level committees mainly Audit Committee, Nomination and Remuneration Committee along with Stakeholder Relationship Committee. The Group also maintains adequate level of transparency with regards to business ethics issues which can be inferred from its policies relating to code of conduct, whistle blower protection and related party transactions. In terms of its social impact, the Group is making contributions to funds working towards socio economic development, environmental sustainability, eradicating poverty and promoting sanitation.

Rating Sensitivity

- Significant decline in merchant banking business
- Decline in profitability
- Deterioration in asset quality

Material Covenants

A K Group is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position: Adequate

The Group has cash and liquid investments of Rs.671 Cr. including undrawn lines of Rs.663 Cr. as on November 30,2021. The repayment obligations stood at Rs.104 Cr. till March 2022.

Outlook: Stable

Acuité believes that AKCSL, at consolidated level, will maintain a 'Stable' outlook on account of the diversified business risk profile, healthy capitalisation, and benefits derived from the experience of the group management. The outlook may be revised to 'Positive' if there is significant increase in the scale of the business along with sustained improvement in profitability while maintaining asset quality. The outlook may be revised to 'Negative' in case of sustained pressure on profitability indicators or asset quality.

Key Financials - Standalone / Originator

	Unit	FY21 (Audited)	FY20 (Audited)
Total Assets	Rs. Cr.	541.70	455.03
Total Income*	Rs. Cr.	63.59	53.36
PAT	Rs. Cr.	25.42	18.67
Net Worth	Rs. Cr.	418.70	397.20
Return on Average Assets (RoAA)	(%)	5.10	4.02
Return on Average Net Worth (RoNW)	(%)	6.23	4.77
Total Debt/Tangible Net Worth (Gearing)	Times	0.26	0.09

*Total income equals to Total Income net off interest expense

Key Financials (Consolidated)

	Unit	FY21 (Audited)	FY20 (Audited)
Total Assets	Rs. Cr.	2161.36	1581.06
Total Income*	Rs. Cr.	206.36	199.01
PAT	Rs. Cr.	75.05	51.01
Net Worth	Rs. Cr.	683.85	614.67
Return on Average Assets (RoAA)	(%)	4.01	2.46
Return on Average Net Worth (RoNW)	(%)	11.56	8.50
Total Debt/Tangible Net Worth (Gearing)^	Times	2.03	1.43

*Total income equals to Total Income net off interest expense

^Adjusted for minority interest

Ratios as per Acuité calculations

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jan 2022	Proposed Bank Facility	Long Term	73.00	ACUITE AA- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE AA- Stable Assigned
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE AA- Stable Assigned
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE AA- Stable Assigned
Punjab National Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE AA- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	73.00	ACUITE AA- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	53.40	ACUITE AA- Stable Assigned
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	40.00	ACUITE AA- Stable Assigned
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.60	ACUITE AA- Stable Assigned
Federal Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	150.00	ACUITE AA- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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