A. K. Capital Finance Limited
REGISTERED OFFICE:
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To,
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400 001

Subject: **Intimation under Regulation 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Dear Sir/Madam,

Pursuant to Regulation 51 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulation"), we hereby inform you that CARE Ratings Limited ("CARE"), the credit rating agency has assigned and reaffirmed ratings of A. K. Capital Finance Limited ("the Company") as detailed herein:

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Market Linked Debentures (Proposed)	100.00	CARE PP-MLD AA-; Stable (Principal Protected-Market Linked Debentures Double A Minus; Outlook: Stable)	Assigned
Non-Convertible Debentures	200.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**300.00 (Rs. Three hundred crore only)**		
Commercial Paper	20.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	**20.00 (Rs. Twenty Crore Only)**		
Long-term/Short-term Bank Facilities	600.00	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**600.00 (Rs. Six hundred crore only)**		

Also, the Press release issued by CARE is enclosed for the rating rationale.

We request you to kindly take the aforesaid on records and oblige.

For A. K. Capital Finance Limited

Govind Lalwani

Digitally signed by Govind Lalwani
DN: cn=Govind Lalwani, o=A. K. Capital Finance Limited, ou=A. K. Capital Finance Limited, email=Govind.lalwani@akgroup.co.in, c=IN
Date: 2022.05.17 19:13:22 +05'30'

Govind Lalwani
Company Secretary and Compliance Officer

Date: 17-May-2022
Place: Mumbai

CC: Catalyst Trusteeship Limited, Debenture Trustee

A. K. Capital Finance Limited

May 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Market Linked Debentures (Proposed)	100.00	CARE PP-MLD AA-; Stable (Principal Protected-Market Linked Debentures Double A Minus; Outlook: Stable)	Assigned
Non-Convertible Debentures	200.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**300.00 (Rs. Three hundred crore only)**		
Commercial Paper	20.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**20.00 (Rs. Twenty crore only)**		
Long-term/Short-term Bank Facilities	600.00	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**600.00 (Rs. Six hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to various debt instruments of A. K. Capital Finance Limited (AKCFL) factor in the comfortable capitalisation level and moderate gearing, good resource-raising ability, comfortable liquidity, adequate profitability, healthy asset quality and experience of the promoter and the management. The A. K. Capital group has a track record and established presence in the debt capital markets through the parent entity, A. K. Capital Services Limited (AKCSL), which is a SEBI-registered Category-I merchant banker having a strong institutional and retail client base.

As per its stated policy, the company will maintain an overall gearing (debt/tangible net worth) of up to 3x. The company will not invest more than 20% of its business assets (referred to as 'assets under management; AUM') in instruments/entities in 'BBB' category or unrated exposures and will at all times have at least 20% of its AUM in government securities (G-Secs)/SDL/T-Bills/AAA/AA category rated instruments/entities and liquid assets (as defined in the liquidity policy of the company). Furthermore, the company will maintain six months of principal term debt repayment obligations in liquid assets at all times. Any material deviation from the stated policy will continue to be a key rating sensitivity.

The ratings also take note of the volatility in income due to the dependence on debt capital markets, the moderate scale of operations, and increasing competition and high borrower concentration risk due to the nature of its corporate lending and investment.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in the lending and investment portfolio, while maintaining good asset quality and capitalisation levels.

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality, with net NPA to total AUM exceeding 3% on a sustained basis.
- Deterioration in the profitability, with ROTA falling below 1% on a sustained basis.
- Overall gearing (debt/tangible net worth) exceeding 3x.
- Deterioration in the liquidity profile, with the company not maintaining six months of principal term debt repayment obligations in liquid assets as per the stated policy.
- Deterioration in the credit profile of the assets.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capitalisation levels with moderate gearing

The company is comfortably capitalised and had a tangible net worth of Rs.647 crore (standalone), as on December 31, 2021. The company reported a capital adequacy ratio (CAR) of 40.76% (March 31, 2021: 36.70%) and Tier-I CAR of 40.64% (March 31, 2021: 36.62%), as on December 31, 2021, with moderate overall gearing (debt/tangible net worth) at 1.51x (March 31, 2021: 2.04x) as on December 31, 2021. On a consolidated basis, AKCSL's gearing stood at 2.06x as on March 31, 2021, as

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

against 1.46x as on March 31, 2020, while the consolidated tangible net worth of the group stood at Rs.677 crore as on March 31, 2021. Going forward, the company has represented that it would maintain a minimum CAR of 20% at all times and will not cross the overall gearing beyond 3x.

Healthy asset quality

AKCFL has a lending portfolio that comprises loans given to borrowers as well as investments in non-convertible debentures (NCDs) and other debt instruments. The company has maintained healthy asset quality with nil NPAs over the last three years. As on December 31, 2021, around 95% (March 31, 2021: 93%) of AUM was in G-Sec/'A' category and above rated papers, which provide reasonable strong liquidity as the company has the flexibility to sell down such assets.

Furthermore, of the total AUM, which includes term loans, loans in the form of NCDs, investments in G-Sec and other highly rated papers, around 23% of the total AUM exposure as on December 31, 2021 (43% as on March 31, 2021), is towards treasury book (G-Sec plus highly rated papers), which has low risk. AKCFL has sound risk management practices and is benefitted from the group's experience in the debt market in the assessment of the credit quality of the borrowers, which has helped it maintain good asset quality over the years.

CARE Ratings expects the company to maintain its strong asset quality, going forward. In any case, the company will not invest more than 20% of its AUM in 'BBB' category rated instruments/entities or unrated exposures and will at all times have at least 20% of its AUM in G-Secs/SDL/T-Bills, AAA/AA category rated instruments/entities and liquid assets, as per its liquidity policy.

Diversified resource profile and strong liquidity

AKCFL has a diversified resource base and has borrowings in the form of NCDs, term loans and CC facilities from banks and TREPS (CBLO) borrowings. Of the total borrowings of Rs.977.30 crore as on December 31, 2021, around 78% is funded by NCDs and the balance by bank loans (including CBLO and repo borrowings).

As on December 31, 2021, the liquidity profile was comfortable, with no cumulative negative mismatches up to one year. As per the company's liquidity policy, the company will at all times, maintain minimum liquidity equivalent to the next six months of principal term debt repayment obligations. The liquidity will be maintained in the form of government-backed securities, TREPS (CBLO)/REPO lending, cash, and bank balance (including lien-free fixed deposits), liquid mutual funds, 'AAA' rated securities, securities of public sector entities having a credit rating of 'AA' and above, and commercial papers with highest credit rating, in any combination at all times. As on December 31, 2021, the company has a debt repayment of Rs.226.25 crore, against which it has liquidity to the tune of Rs.380.26 crore.

Track record of the group in the debt market and experience of the promoter and management team

AKCFL is a majority-owned subsidiary of AKCSL, which has been providing merchant banking services, and is a leading player in the corporate debt market segment through the management of private placements as well as public issues. The group has a large institutional client base, including provident funds, banks, financial institutions, insurance companies, mutual funds, and corporates and retail client base.

The management team is headed by Mr A.K. Mittal, Managing Director and CEO, who is a first-generation entrepreneur and promoter of the A. K. Group with over three decades of experience in the financial services sector. The company has a second line of management having experience in the financial services sector.

Key Rating Weaknesses

Volatility in profitability parameters

AKCFL follows a risk management practice, wherein, during times of uncertainty, it reduces its loan book exposure and increases the proportion of the investment, which exposes it to volatility in revenue profile. The company's AUM saw an increased proportion of investments, while the loan portfolio contracted during the past two years.

Due to volatility in the bonds markets, the company curtailed its operations in the debt securities market and focused more on the lending business. As a result, its AUM declined to Rs.1,541.54 crore as on December 31, 2021. The shift in portfolio was reflected in the growth in the interest income with a corresponding decline in treasury gains. The total income has increased from Rs.136.68 crore for 9MFY21 to Rs.147.06 crore for 9MFY22. Interest income has increased from Rs.86.39 crore for 9MFY21 to Rs.103.18 crore for 9MFY22 on account of an increase in the lending portfolio from Rs.1,035.55 crore as on March 31, 2021, to Rs.1,185.41 crore as on December 31, 2021.

Profitability has increased marginally by 4.7% on a y-o-y basis for the nine months ended December 31, 2021. Growth in profitability is impacted by an increase in the operating expenses.

AKCFL reported a return on total assets (ROTA) of 3.23% (annualised) for the nine months ended December 31, as compared to 3.03% for FY21.

On a consolidated basis, AKCSL derives the majority of its income by subscribing debt instruments from the primary market and retailing them out to its client base, which can lead to potential income volatility due to exposure to the market risk of its bond portfolio. Furthermore, the transaction volumes would depend upon the overall buoyancy in debt capital markets, which can exhibit periodic volatility and impact AKCSL's income. In FY21, AKCSL's consolidated total income was Rs.289.15 crore (FY20: Rs.314.21crore), and consolidated PAT was Rs.75.05 crore in FY21 as against Rs. 51.48 crore in FY20 due to a 28.44% decline in the interest expense and a 23.06% decline in the operating expenses.

High exposure to corporate segment with relatively higher borrower concentration, which may be vulnerable to high provisioning in case of slippages

The company has, over the years, maintained good asset quality. However, due to the nature of its exposures, the company remains vulnerable to a high concentration in exposure as it focuses on large ticket-size corporate lending to mainly financial

services entities, a sector, which has been under considerable stress for the past three years, in addition to the recent COVID-19 pandemic.
The company's top 10 borrowers in the lending segment (term loans plus loans in the form of NCDs) constituted around 45% (29% as on March 31, 2021) of the total AUM (lending segment plus treasury book) and more than 1.0x (0.85x as on March 31, 2021) of the tangible net worth, as on December 31, 2021. The company's ability to further scale up with impeccable asset quality remains a key rating monitorable. The top 20 exposures reflect in terms of concentration, however, the exposure is towards A-rated and above entities.

Liquidity: Adequate
The company's ALM profile, as on December 31, 2021, has no negative cumulative mismatches up to one year. The company has a total liquidity (including investment in highly-rated bonds) of Rs.380.26 crore, as on December 31, 2021, vis-à-vis debt repayment of Rs.226.25 crore for the next six months, which is satisfactory in nature. The management has indicated to maintain around 20% of its AUM in highly-rated and liquid assets at all times. The company has sanctioned undrawn lines from banks to the tune of Rs.212.21 crore, as on December 31, 2021, and the company is among India's few NBFCs having a membership of the Collateralised Borrowing and Lending Obligation (CBLO) segment of the Clearing Corporation of India Limited (CCIL) (an autonomous body regulated by the Reserve Bank of India). Furthermore, comfort is drawn from the company's policy to maintain liquidity of six months of principal term debt repayment obligations at all times.

Analytical approach:
CARE Ratings Limited has considered the standalone financial risk profile of A.K. Capital Finance Limited along with business synergies, shared brand linkage and expected support from its parent entity, A.K. Capital Services Limited.

Applicable Criteria
Policy on default recognition
Financial Ratios - Financial Sector
Rating Methodology: Notching by factoring linkages in Ratings
Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Non-Banking Finance Companies (NBFCs)

About the Company
AKCFL is a 98.7% subsidiary of AKCSL, a category-I merchant banker listed on the Bombay Stock Exchange, as on March 31, 2021. AKCFPL was formally known as Girdhar Vanijya Pvt Ltd, and in September 2008, the company was acquired by AKCSL.
AKCFL is an RBI-registered systemically important non-deposit-taking NBFC and is primarily engaged in onward lending and investment in the debt market. The company is the flagship NBFC of the group and offers customised debt solutions to eligible borrowers having good repute and a proven track record in the industry. The company lends to corporate entities by way of loans and advances as well as investments in credit instruments, which allows the company the flexibility to down-sell the instruments in a short span of time.
AKCFL has a 100% subsidiary, Family Home Finance Private Limited (FHFPL), which is a housing finance company registered with the National Housing Bank (NHB). The company was incorporated on June 29, 2017, and had a negligible loan portfolio as on March 31, 2021. The management does not intend to grow the housing finance business; however, the management will continue to support its HFC as per applicable regulatory guidelines.
AKCSL has been providing merchant banking services for over 20 years and is a leading player in the corporate debt market segment through the management of private placements as well as public issues.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total income	182.48	182.47	147.06
PAT	36.63	50.50	43.18
Total Assets	1439.04	1897.15	1671.03
Net NPA (%)	Nil	Nil	Nil
ROTA (%)	1.93	3.03	3.23

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Market Linked Debentures	-	-	-	-	100.00	CARE PP-MLD AA-; Stable
Debentures-Non-Convertible Debentures	INE197P07284	30-Mar-22	8.05%	30-Mar-25	50.00	CARE AA-; Stable
Debentures-Non-Convertible Debentures (proposed)	-	-	-	-	150.00	CARE AA-; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	20.00	CARE A1+
LT/ST Fund-based/non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	31-Dec-26	600.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (26-Sep-19)
2	Commercial Paper-Commercial Paper (Standalone)	ST	20.00	CARE A1+	-	1)CARE A1+ (29-Mar-22) 2)CARE A1+ (16-Jun-21)	-	-
3	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Mar-22) 2)CARE AA-; Stable (27-Jul-21)	-	-
4	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	600.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (29-Mar-22)	-	-
5	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Mar-22)	-	-
6	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA-; Stable				

* Long Term/Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation*
A. Financial covenants	
I. Bank loan facilities	NNPA not to be more than 3% of AUM
	CRAR not below 15%
	Total Debt to Net-worth should be less than 7x (except CBLO/Repo Borrowings)

*As per sanction letter of various bankers

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Simple
3	Fund-based-long term/short term facilities	Simple
4	Debentures-Market Linked Debentures	Highly Complex

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer
The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**