RATING RATIONALE **1 September 2020**

A. K. CAPITAL SERVICES LIMITED

Brickwork Ratings reaffirms 'BWR AA-'/Stable for the Bank Loan Facilities of A. K. Capital Services Limited

Particulars

Instruments / Facilities**	Amount (Rs.Crs)		Tenure	Rating*	
	Previous	Present		Previous (Jan, 2020)	Present @
Bank Loan Fund Based	785.00	582.29	Long Term	BWR AA- (Stable)	BWR AA- (Stable) (Reaffirmed)
Total	785.00	582.29	Rupees Five Hundred Eighty-Two crores and Twenty-Nine Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
** Details of bank facilities/NCD/bonds/commercial paper are provided in Annexure -I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed 'BWR AA-' /Stable for the bank loan facilities of A. K. Capital Services Limited (AKCSL or the company), as tabulated above. The ratings factor in the experienced management, long track record of the group in the merchant banking business, sound asset quality in the fund-based business and comfortable capitalisation. However, the ratings are constrained by the inherent volatility in the debt capital markets business and limited scale of financing operations.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes AKCSL will continue to maintain its credit risk profile.

ANALYTICAL APPROACH

For arriving at the ratings, BWR has combined the business and financial risk profiles of A. K. Capital group companies, which mainly include A.K. Capital Services Limited (AKCSL) and its subsidiaries, A.K. Capital Finance Limited (AKCFL), A.K. Stockmart Private Limited (AKSPL), A.K. Wealth Management Private Limited, A.K. Capital Corporation Private Limited, Family Home Finance Private Limited and A.K. Capital Singapore Pte. This is because all the companies (a part of the A.K. Capital group), have significant financial, managerial and operational linkages.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

KEY RATING DRIVERS

Credit Strengths:

- **Experienced management and long track record of business**: The A K Capital group has almost three decades of experience and an established position in debt capital markets in India. The group has a competitive position as a merchant banker in the corporate bond and fixed-income markets. Mr. A K Mittal (the MD and CEO) has more than 30 years of experience in the industry. The management of the group consists of experienced professionals with a vast experience in the financial services space. The group, with its sourcing, underwriting and distributing capabilities for the private and public sectors, has established strong relations with its clients.

  A.K. Capital Group has arranged debt for the Indian banking sector in the form of lower Tier II/ upper Tier II/perpetual bonds having a value of ~Rs.10.50 lakh Crs. Over the past 11 years, from 2009-10 to 2019-20, A.K. Capital has managed 1634 assignments of the private placement of debt aggregating to Rs. 13.05 lakh Crs. For FY 2019-20, A.K. Group managed 147 assignments amounting to Rs 2.57 lakh Crs, compared with 125 assignments amounting to Rs. 1.54 lakh Crs during FY 20.

- **Comfortable capital position**: As on 31 March 2020, the group-level tangible networth stood at Rs. 636.39 Crs, compared with Rs 626.63 Crs as on 31 March 2019. AKCFL has maintained its capital adequacy ratio of more than 20% during the last three years. As on 30 June 2020, the capital-to-risk weighted assets ratio (CRAR) of the company stood at 49.42%, against 49.81% as on 31 March 2020. During FY20, the group's total borrowing decreased substantially as it had prepaid the majority of its high-cost debt in FY20, and further during Q1FY21. The group has not opted for a moratorium from any of its lenders. On account of the above, the group's debt to tangible networth ratio improved to 1.38 times as on 31 March 2020, compared with 2.99 times as on 31 March 2019.

- **Sound asset quality**: The group's fund-based business carried out through AKCFL uniquely operates as a debt capital market (DCM) NBFC and follows a low-risk model with customised debt solutions in the form of loans and fixed-income instruments spread over a short to medium term. The group's stringent risk management policies and demonstrated ability to exit stressed exposures early on has resulted in the company maintaining a robust asset quality. AKCFL has reported nil non-performing assets (NPAs) since inception until date.

Credit Risks:

- **Inherent volatility in debt capital markets business**: The AK Capital group's business activities in debt capital markets are exposed to economic cyclicality and macroeconomic indicators, including a movement in the interest rate, GDP growth and inflation, wherein any adverse movement in any of these factors will result in volatility in the business performance, considering its income depends on the activity in debt market issues and the distribution of the same to its clients. In spite of a higher issuance managed by the group in FY20, it has reported decline in income, as well as

profits, due to limited margins in the merchant banking business. During FY20, the group reported a total income of Rs. 314.21 Crs and profit after tax of Rs. 51.48 Crs, against a total income of Rs. 421.67 Crs and profit after tax of Rs. 71.96 Crs during FY19. The return on average assets (ROA) was at 2.04% in FY20, against 2.09% in FY19 for A.K. Capital Finance Limited on a standalone basis. BWR believes the group's income and profitability will be maintained during FY21, subject to the inherent risk associated with debt capital markets over the medium term.

- **Limited scale of financing operations**: The group has a limited size of the AUM, consisting of core lending/loan book and treasury investments with a concentrated set of clientele. The most treasury investments could be opportunity-based and on behalf of and backed by commitments from clients to buy from the NBFC in a short period of time, thereby mitigating market price volatility. The AUM of AKCFL declined to Rs.1290.87 Crs in FY20, against Rs. 2297.33 Crs during FY19 due to limited market opportunity for lending and investments as per the group's lending and investments strategy. The AUM further reduced to Rs. 1222.50 Crs during Q1FY20. Despite the impact of the COVID-19 pandemic, the collection efficiency in July 2020 was at ~94% for the core lending book and 100% for marketable debt instruments. However, given the COVID-19 impact on the domestic economy, the group's overall credit profile will be a key monitorable over the medium term.

RATING SENSITIVITIES

Positive: A significant improvement in the financial risk profile and the market share of the group, including a substantial increase in revenue and profitability while maintaining asset quality, will be rating positive.

Negative: A significant deterioration in business volumes, the asset quality or the earning profile will be rating negative.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

LIQUIDITY INDICATORS: ADEQUATE

As on 26 August 2020, on a consolidated level, the group had liquidity of Rs. 380.59 Crs, i.e., liquid investments of Rs 325.66 Crs, and cash and cash equivalent of Rs. 54.93 Crs against the debt obligation of Rs. 219.28 Crs (this is excluding CC/OD/Car loan /Housing loan) payable from 1 September 2020 to 31 March 2021. The group also has undisbursed sanctions of Rs. 918.00 Crs as on date.

COMPANY PROFILE

A. K Capital Services Limited (AKCSL), incorporated in 1993 is a SEBI-registered category-I merchant banker, listed on the Bombay Stock Exchange (BSE). AKCSL is the flagship company of A.K. Capital Group and one of the leading players in the corporate bond and fixed- income market in India. The company has pioneered its position in the debt market private placement, public issues and financial advisory services. The company offers customised solutions to its clients, i.e. issuers by mobilising funds through the debt capital market and investors by creating avenues for investment in the debt capital market.

A K Capital group companies also complement each other right through client sourcing, lending and other ancillary services. Parent company A K Capital Services Limited conducts the merchant banking activity, and A K Capital Finance Limited is the NBFC arm of the group. The NBFC deals with fixed-income instruments and also lending activities. A K Stockmart Private Limited (a 100% subsidiary of AK Capital Services Ltd.) does broking activities and third-party product distribution for the group. It provides broking services in the wholesale debt market (WDM) and retail debt market (RDM), and acts as a depository participant.

KEY FINANCIAL INDICATORS A K Capital Service Limited (Standalone)

Key Financial Indicators	Units	FY 19	FY20	Q1FY21
Result Type		**Audited**	**Audited**	**UnAudited**
Total Income	Rs.in Crs	84.92	63.34	14.30
Profit after tax	Rs.in Crs	23.51	18.67	5.12
Tangible Networth	Rs.in Crs	386.16	397.08	-
Total Debt	Rs in Crs	72.84	36.90	-
Debt to Tangible Networth	Times	0.19	0.09	-

KEY FINANCIAL INDICATORS – A K Capital Services Limited (Consolidated)

Key Financial Indicators	Units	FY19	FY20	Q1FY21
Result Type		**Audited**	**Audited**	**UnAudited**
Total Income	Rs in Crs	421.67	314.21	57.09
Profit After tax	Rs in Crs	71.96	51.48	13.68
Tangible Networth	Rs in Crs	626.63	636.39	-

Total Debt	Rs in Crs	1875.41	878.40	-
Debt to Tangible Networth	Times	2.99	1.38	-

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY :NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument / Facilities	**Current Rating (August 2020)**			**Rating History**			
	Tenure (Long Term/ Short Term)	Amount Rs. Crs	Rating	29 Jan 20	5 Feb19	2018	2017
Fund Based	Long Term	582.29	BWR AA- (Stable) (Reaffirmed)	BWR AA- (Stable) (Reaffirmed)	BWR AA- (Stable) (Assigned)	-	-
Total		**582.29**					

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Banks & Financial Institutions**

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A K Capital Services Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total* (Rs. Crs.)
1	Bank of Maharashtra	CC/OD/WCDL	100	-	100.00
2	Union Bank of India	CC/WCDL	100	-	100.00
3	Bank of India	CC/OD/WCDL	100	-	100.00
4	Punjab National Bank	OD/WCDL/IL	50	-	50.00
5	Andhra Bank	OCC/WCDL	50	-	50.00
6	Federal Bank	CC/WCDL	150	-	150.00
7	Federal Bank	Term Loan	32.29	-	32.29
Total					**582.29**

Total Rs. Five Hundred Eighty Two Crs. and Twenty Nine lakhs only.
**** The facilities are as on 31 July 2020***

ANNEXURE II
INSTRUMENT (NCD/Bonds) DETAILS: NA

ANNEXURE III

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
A K Capital Corporation Private Limited	100%	100%	Subsidiary
A K Capital Finance Limited	98.73%	98.73%	Subsidiary
A K Stockmart Private Limited	100%	100%	Subsidiary
A K Wealth Management Private Limited	100%	100%	Subsidiary
A K Capital (Singapore) PTE Limited	100%	100%	Subsidiary
Family Home Finance Private Limited	98.73%	98.73%	Step down Subsidiary

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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