



Press Release
FAMILY HOME FINANCE PRIVATE LIMITED
February 01, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE AA- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 30.00 Cr. proposed bank facilities of Family Home Finance Private Limited (FHFPL). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned factors in the 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 net worth and gearing of Rs. 876.54 Cr. and 3.03 times (adjusted for minority interest) as on September 30, 2023. The lending arm of the Group, AKCFL too exhibited healthy capitalization levels with CAR of 30.99 percent as on September 30, 2023. The rating also reflects the sound asset quality and prudent risk management practices of AKCFL (subsidiary of AKCSL). As on September 30, 2023, AKCFL reported very minimal slippages and reported 0.63 percent of gross non-performing assets as against 0.38 percent non-performing assets on the loans and advances. 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 FY2023 majority of issues were originated by the PSUs and the group had high concentration in merchant banking business. On the lending front, AKCFL's top ten exposures accounted for 47.44 percent of its total exposures as on March 31, 2023. 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. 406.81 Cr. during FY2023 as compared to Rs. 322.89 Cr. during FY2022.

About the Company

Family Home Finance Private Limited (FHFPL), as on Sep 30, 2023, is a Wholly Owned Subsidiary (WOS) of A. K. Capital Finance Limited and step down subsidiary of A. K. Capital Services Limited. FHFPL is registered with National Housing Bank as a Non Deposit taking Home Finance institution vied certificate number 04.0167.18 dated 09th April, 2018. The company has been classified as Middle Layer NBFC as per Scale Based Regulation issued by RBI and primarily offers affordable housing finance in form of Home Loans and Secured Lending products through co-lending, strategic partnership, Securitization and Direct Assignment (DA) model with channel partners and catering to middle income households primarily from Tier – II, Tier – III and Tier – IV cities.

About the Group

Incorporated in 1993, AKCSL, a SEBI registered Category I Merchant Banker, is promoted by

Mr. A K Mittal. AKCSL 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.

Unsupported Rating

None

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, A.K. Wealth Management Pvt. Ltd and A.K. Alternative Asset Managers Pvt. Ltd for analysing FHFPL'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 debt assignments of Rs. 2,75,531.19 Cr. translating to a market share of 42.90 percent in FY2023 as against debt assignments of Rs. 1,43,172.20 Cr. translating to a market share of 30.80 percent in FY2022. AKCSL has established strong relationship with diverse base of institutional clients including Indian Corporates, Banks, NBFCs, FIs, 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. 876.54 Cr. (adjusted for minority interest) as on September 30, 2023 (Rs. 839.38 Cr. as on March 31, 2023). 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.2658 Cr. as on September 30, 2023, NCDs constituted ~26 percent followed by working capital facilities at ~41 percent, TREPS (formerly known as CBLO) and Repo borrowings at ~15 percent, commercial paper at ~1 percent and long term bank facilities from Banks & NBFC (term loans) at ~17 percent. The gearing ratio is comfortable at 3.03 times (adjusted for minority interest) as on September 30, 2023 (2.58 times (adjusted for minority interest) as on March 31, 2023). On standalone basis, AKCSL reported networth and gearing at Rs. 465.76 Cr. and 1.08 times respectively as on March 31, 2023. 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. Since FY2022, 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. 2283.29 Cr. as on March 31, 2023 from Rs. 2008 Cr. as on March 31, 2022. The AUM improved to Rs. 2,651.86 crore as on September 30, 2023. The exposure to private sector entities stood at Rs. 1158 Cr. (~51 percent of AUM) as on March 31, 2023 as compared to Rs. 1212 Cr. (~60% of AUM) as on March 31, 2022. 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. AKCFL for the first time reported minimal gross non performing assets as on March 31, 2023 resulting from minor slippages in retail portfolio. The Gross NPA of the company stood at 0.02 percent as on March 31, 2023. The GNPA of the company stood at 0.63 percent as on September 30, 2023. 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.

Acuite 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 percent of total revenue and financial advisory services about 26 percent of total revenue for FY2023. 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. 406.81 Cr. during FY2023 as compared to Rs. 323 Cr. during FY2022. The improved revenue profile during FY2023 resulted in improved profitability with AKCSL reporting consolidated Profit after Tax (PAT) of about Rs. 88.42 Cr. during FY2023 from Rs. 83.01 Cr. during FY2022. 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 marginally higher profitability as reflected in profit after tax (PAT) of about Rs. 30.72 Cr. during FY2023 as compared to Rs. 26.32 Cr. during FY2022 mainly driven by uptick in dealing income derived from downselling of debt investments.

Client concentration in merchant banking & corporate lending businesses

In terms of Private placement Issues, during the FY2023 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. On the lending business front, AKCFL has primarily focused on the corporate 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 corporate 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 47.44 percent of its total exposures as on March 31, 2023. 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 corporate lending 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.

FHFPL's board comprises of a total of five directors out of which two are independent directors and three are woman director. The Group maintains adequate disclosures with respect to the various board level committees mainly Audit Committee, Nomination and Remuneration Committee along with Risk Management 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

Liquidity Position

Adequate

The Group has cash of Rs. 27.89 Cr. and quoted stock of debt securities of ~Rs. 541.37 Cr. as on September 30, 2023.

Outlook

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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

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Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	40.77	22.91
Total Income*	Rs. Cr.	1.83	1.03
PAT	Rs. Cr.	0.85	0.43
Net Worth	Rs. Cr.	23.71	22.86
Return on Average Assets (RoAA)	(%)	2.67	2.46
Return on Average Net Worth (RoNW)	(%)	3.65	2.46
Debt/Equity	Times	0.71	Nil
Gross NPA	(%)	Nil	Nil
Net NPA	(%)	Nil	Nil

*Total income equals to Net Interest Income plus other income

Ratios as per Acuité calculations

Key Financials (Consolidated)

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	3117.72	2713.5
Total Income*	Rs. Cr.	276.24	230.46
PAT	Rs. Cr.	88.42	83.01
Net Worth^	Rs. Cr.	839.38	759.83
Return on Average Assets (RoAA)	(%)	3.03	3.41
Return on Average Net Worth (RoNW)	(%)	11.06	11.5
Debt/Equity^	Times	2.58	2.43
Gross NPA	(%)	N/A	N/A
Net NPA	(%)	N/A	N/A

*Total income equals Net Interest Income plus other income.

^Adjusted for minority interest

Ratios as per Acuité calculations

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE AA- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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