# AKME FINTRADE INDIA LIMITED

June 18, 2024

AASAAN LOANS
Unnati ki aur pehla kadam
Powered by Akme Fintrade India Ltd

**SMC Ranking**

★½☆☆☆ (1.5/5)

## Issue Highlights

| | |
|---|---|
| **Industry** | **NBFC** |
| Fresh Issue (Shares) | 11,000,000 |
| **Net Offer to the Public** | **11,000,000** |
| Issue Size (Rs. Cr.) | 125-132 |
| Price Band (Rs.) | 114-120 |
| Offer Date | 19-Jun-24 |
| Close Date | 21-Jun-24 |
| Face Value | 10 |
| Lot Size | 125 |

## Issue Composition

| | In shares |
|---|---|
| Total Issue for Sale | 11,000,000 |
| QIB | 5,500,000 |
| NIB | 1,650,000 |
| Retail | 3,850,000 |

## Shareholding Pattern (%)

| Particulars | Pre-issue | Post -issue |
|---|---|---|
| Promoters & promoters group | 56.01% | 41.57% |
| QIB | 43.99% | 45.54% |
| NIB | 0.00% | 3.87% |
| Retail | 0.00% | 9.02% |
| **Total** | **100.00%** | **100.00%** |

*calculated on the upper price band

## Objects of the Issue

The company proposes to utilize the Net Proceeds from the Issue towards augmenting the capital base of the company to fulfil its future capital requirements, which are anticipated to arise as a result of the expansion of the business and assets. Further, a portion of the proceeds from the Issue will be used towards meeting Issue-related expenses.

**Book Running Lead Manager**

- Gretex Corporate Services Limited

**Name of the registrar**

- Bigshare Services Pvt Limited

## About the company

Incorporated in 1996, Akme Fintrade India Ltd is a non-banking financial company (NBFC) with over 20 years of experience in lending to rural and semi-urban areas in India. The company mainly provides lending solutions tailored to the needs and aspirations of rural and semi-urban populations. Its portfolio comprises Vehicle Finance and Business Finance Products for small business owners. The company operates in rural and semi-urban areas across four Indian states - Rajasthan, Maharashtra, Madhya Pradesh, and Gujarat. It has a registered office in Udaipur, Rajasthan, and a Corporate Office in Mumbai, Maharashtra. With 12 branches and over 25 points of presence, including digital and physical branches, it has served over 200,000 customers. The company finances the purchase of new two-wheelers and three-wheelers, such as scooters, motorcycles, and auto rickshaws, for salaried professionals and self-employed non-professionals.

The following table sets the product-wise NPA of the Company for the periods indicated as below:

*(₹ in lakhs)*

| Business Vertical | As on March 31, 2021 | | As on March 31, 2022 | | As on March 31, 2023 | | As December 31, 2023 | |
|---|---|---|---|---|---|---|---|---|
| | NPA | % | NPA | % | NPA | % | NPA | % |
| Four Wheeler Loan | 185.11 | 12.31% | 122.69 | 7.12% | 147.69 | 9.12% | 57.87 | 3.87% |
| Business Loan | 698.79 | 46.46% | 1,410.34 | 81.89% | 1,107.55 | 68.37% | 1,158.13 | 77.45% |
| Three Wheeler Loan | 4.98 | 0.33% | 2.06 | 0.12% | 14.67 | 0.91% | 21.57 | 1.44% |
| Two Wheeler Loan | 615.15 | 40.90% | 187.24 | 10.87% | 349.97 | 21.60% | 257.8 | 17.24% |
| **Grand Total** | **1,504.04** | **100.00%** | **1,722.33** | **100.00%** | **1,619.88** | **100.00%** | **1,495.37** | **100.00%** |

## Strength

**Proven execution capabilities with a strong rural and semi-urban focus :** Rural and semi-urban Areas in India are a highly under-served market for formal banking services in terms of access, availability, and suitability of products and services. The company has a long history of serving rural and semi-urban markets with high growth potential and has maintained a track record of financial performance and operational efficiency through consistently high rates of customer acquisition and retention and low cost expansion into underpenetrated areas. Therefore, it strategically focuses on clients in the rural and semi-urban sector. The loan portfolio in rural areas and semi-urban areas was 60.70%, 61.19 %, 60.22% and 61.21% in Fiscal Years 2021, 2022 and 2023 and the nine months period ended December 31, 2023, respectively.

**Well established Vehicle Finance, small businesses lending business:** The Company has established a strong market of Vehicle Finance Business and business lending which Include Small business, MSME and SME businesses. It has achieved growth while maintaining core focus on conservative credit assessment and risk management, and ensuring, among other criteria, that is lend to borrowers with proven track record and strong cash flow, the company obtain sufficient collateral. It has also built a strong Vehicle Finance Business and small business owners lending business focused on extending secured loans to small and medium size enterprises, including businessmen, traders, manufacturers and self-employed professionals. The company believes that the growth of its Vehicle Finance Business and small business is attributable to the reach to rural and semi-urban areas through its network, comprising strong presence in 4 states including Rajasthan, Maharashtra, Gujarat and Madhya Pradesh including 12 branches and various other locations where it is present and which it believes is the key markets in India for Vehicle Finance business and small business lending business. As at December 31, 2023, it has around 32,771 loans as of Vehicle Finance and Secured Business Loan/MSME outstanding, including small enterprises, and self-employed non-professionals for their

stores, retail outlets, handicrafts manufacturers and other businesses. Its loans AUM as on nine months period ended December 31, 2023 and as on financial year ended March 31, 2023, March 31, 2022 and March 31, 2021 were Rs.37,946.28, Rs.35,416.11, lakhs Rs.35,131.79 lakhs and Rs.42,100.78 lakhs, respectively. Out of above data Rajasthan has highest contribution which covers 69.39% as on period ended December 31, 2023.

**Stable and experienced management team:** The company believes that the long-standing industry experience of its individual promoter and its management team provides it with an understanding of the needs and behaviour of the clients particularly in rural and semi-urban areas, the nuances of lending to these clients and issues specific to the NBFC industry in India. Additionally, the company also believes that this expertise gives it a competitive advantage in this industry and has helped in maintaining its resilience through industry cycles including covid period. The company has a strong, experienced and dedicated management team, including KMPs with significant industry experience and who have demonstrated their ability to deliver growth and profitability, across business cycles. AFIL Key Managerial Personnel includes a combination of management executives and independent members who bring in significant business experience, which positions it well to capitalize on future growth opportunities.

**Customer centric approach and deep understanding of target customers:** The company has gained a deep understanding of its market and customer base over the years that enables it to meet the financial requirements of its existing and potential customers. It believes that customers prefer a single source for multiple financial services, and accordingly offer a range of credit products and services to address a variety of financing requirements of the customer through its network. These practices helped the company to achieve its endeavour of having primary lending relationship. Its main focus is on providing the products and services to lower and middle income group segment customers in its areas of operations. The company is a one-stop financial hub for its customers for the financial needs where it operates. AFIL targets customers across the sectors with special attention to rural and semi-urban centres because it believes that it not only run a socially responsible and sustainable business, but also that borrower in these regions tends to have lower credit penetration. As of December 31, 2023, March 31, 2023 and March 31, 2022 the company had 32771, 32399, 33959 and 45,315 customers, respectively. Further, as on December 31, 2023, apart from its Registered Office located in Udaipur, Rajasthan and its Corporate Office located in Mumbai, Maharashtra, it has 12 branches and digitally present in 25 locations.

**Access to Diversified Sources of Capital and Effective Asset Liability Management:** Over the years, AFIL has adopted a calibrated approach towards diversifying its fund raising sources and minimizing its costs of borrowings with prudent asset liability management and effective liquidity management.

*(₹ in lakhs)*

| Particulars | As at March 31, 2021 | As at March 31, 2022 | As at March 31, 2023 | As on nine months period ended December 31, 2023 |
|---|---|---|---|---|
| Total Borrowings | 31,782.23 | 23,006.03 | 17,776.31 | 19,518.94 |

equity and a positive net asset position has enabled the company to overcome various negative market conditions in the past. The company also believes that over the years, it has developed a diversified funding base, and has established strong relationships with its lenders. The funding requirement of company is met through short and medium-term funding sources such as loans from banks and financial institutions, NCDs, and ECBs. As at December 31, 2023, its borrowings (other than debt securities and sub debts) were Rs. 17,518.94 lakhs, and subordinated liabilities were Rs. 20 crore. The company has benefited from a large and diversified mix of lenders which has increased over the years and included lenders, comprising a range of public banks, private banks, foreign funding and financial institutions to meet its capital requirements.

**Robust underwriting process and risk management policies:** Currently its risk management division is divided into separate teams that are respectively dedicated to managing and mitigating credit risk, market risk and operational risk, and which are subject to oversight by its Risk Management Committee and the Board of Directors. The customer due diligence procedures encompass multiple levels of checks and controls designed to assess the quality of customers and to confirm that they meet its stringent selection criteria and include comprehensive evaluation of

repayment capacity and detailed cash flows analysis of the customer as well as thorough group training sessions and knowledge testing. Additionally, the company also periodically reviews its standards of procedures and continuously strengthens its audit coverage to ensure that all material transactions and business initiatives are thoroughly reviewed, with the goal of ensuring that asset quality is not compromised because of growth.

**Hub and Spoke business model that improves efficiencies and decreases costs :** The company carries out its operations in the format of "hub & spoke" business model. This model improves efficiencies and decreases costs. Its branches are the "hubs" and its points of sale are "spoke". Its registered office and branches perform functions in respect of sales and credit, operations, risk containment unit, legal and technical checks and collections. Its spokes are smaller locations having points of sale, which are in Tier 3 and Tier 4 cities. The primary focus of smaller locations is to source new loans and provides doorstep services to its customers. Each "hub" typically supports spokes. It believes this model allows it to penetrate into underserved markets with relatively low costs and helps to optimize customer reach and turnaround times.

## Strategy

**Increase focus on Digitisation and expanding product portfolio:** AFIL digital lending platform www.aasaanloans.com is currently under development and will be rolled out in a phased manner. This digital lending platform has been currently deployed to a select group of users for the purpose of User Acceptance Testing (UAT), specifically focusing on Two-wheeler finance as the initial phase. Concurrently, the IT team is actively engaged in developing the product for loan against property, commercial vehicle financing, and secured business loans, which will be introduced in a phased manner. As a preliminary measure, the company has taken the initiative of launching the website aasaanloans.com. This distinct approach facilitates the identification of businesses with low risk and high potential, thereby offering opportunities to individuals who previously lacked access to both short-term and long-term financing options. Following are the loan products that the company is intending to offer through digital lending platform:

- Aasaan Mahila Udhyog loan
- Aasaan Saral Udhyog loan
- Aasaan Vehicle Loan
- Aasaan Farm equipment loan
- Aasaan Loan Against Property

Going forward, the company intends to digitally accept the required application and documents from the potential customers through its website aasaanloans.com. The uploaded documents will be e-verified for faster and easier approval and funding digitally. This approach quickens the loan process by lowering risk, reducing documentation and costs associated, and offering a simple and hassle-free experience that puts businesses on the growth path.

**Deepen, strengthen, and expand geographical Presence:** The company strives to be a low-cost, lean, and efficient digital lending company having presence in four states that leverages technology and the existing distribution network to channel its products and services. Currently the company operates through its registered office located at Udaipur, Rajasthan and its Corporate Office located in Mumbai, Maharashtra, 12 branches located in the States of Rajasthan, Madhya Pradesh, Gujarat and Maharashtra and its points of sale at 25 locations, it plans to further grow its business operations by mining deeper and attracting new customers in the existing markets that remain relatively untapped as well as by entering new regions PAN India where borrowers are underserved and there is lower penetration by finance companies. The company also believes that its diversified presence and branch network with a largely rural and semi-urban focused comprehensive end-to-end customer life cycle management framework through technology, proven risk management policies, governance, and robust operating platform provides it with significant competitive advantages in carrying out its expansion plans.

**Continue to focus on small business owners and self-employed individuals:** AFIL plans to continue to focus on small business owners and self-employed individuals and increase its market share. For instance, in terms of credit availability generally, the Dun & Bradstreet Report notes that

the Markets with High Growth Potential states are Andhra Pradesh, Bihar, Telangana and Rajasthan, where the share of non-institutional credit agencies in total outstanding household debt is more than 40%. The Dun & Bradstreet Report also notes that there are emerging opportunities for the credit products such as personal loans, small business loans in micro credit segment and Two-wheeler loans (two wheeler sales in rural market is expected to reach 2.4 crores units per annum by FY 2027 and this presents a strong growth opportunity for two wheeler financing companies focusing in rural and semi-urban markets) In many locations, it has customers who are first time borrowers from the formal secured lending ecosystem.

**Enhance its brand recall to attract new customers:** The company believes that having a strong recognizable brand is a key attribute in its business, which will help to attract and retain customers, increases customer confidence and influences purchase decisions. Having a strong and recognizable brand will also assist the company in recruiting and retaining employees. The company also intends to continue to undertake initiatives to increase the strength and recall of its 'Aasaan loans' brand to attract new customers. The company has recently introduced its brand "Aasaan Loans" launched digital platform for operations and will continue to invest in various brand enhancement initiatives.

**Leverage its Network, Domain Expertise and Data to Enhance Product Offering:** While the company intends to continue to focus on its core business of providing financing service, it believes additional products and cross-selling opportunities also help strengthen the relationship with its customers and enable higher customer retention. AFIL plans to leverage its large branch network and deep understanding of rural and semi-urban customers, as well as harness the scale and loyalty of its customer base that it has built throughout rural and semi-urban India, to offer additional financing products to existing customers who have a positive track record of loan repayment. The company expects to derive benefits from economies of scale as there is limited incremental sourcing cost for existing customers, and they are eligible to borrow higher loan amounts from it since they have progressed to higher loan cycles. Additionally, the company believes this strategy serves as an effective mitigation mechanism from potential interest rate volatility and would contribute to its profitability.

**Leverage Technology to grow its business:** AFIL intends to continue to upgrade its existing technology systems with automated, digitized and other technology enabled platforms and tools, to strengthen its financing initiatives and derive greater operational, cost and management efficiencies. The company intends to enter into agreements with IT companies to assist it in setting up its IT infrastructure for the operations. The company seeks to provide a differentiated technology framework, enhancing convenience for its customers and reducing operational expenditure at its branches. The company intends to explore delivering services, KYC verification and online loan processing and credit approvals through its digital platform aasaanloans.com.

## Risk factor

- **Declining Revenue:** The recent decline in revenue (FY 2022) suggests a potential for slowing growth or even contraction.
- **High Non-Performing Assets (NPAs):** Compared to peers, the company has a higher level of NPAs.
- **Limited Geographic Reach:** The Company's focus on Rajasthan limits its growth potential.

## Peer comparison

| Company Name | Total Income | PAT | EPS | P/E | P/BV | BV | FV | CMP | MCAP |
|---|---|---|---|---|---|---|---|---|---|
| CSL Finance | 166.59 | 63.36 | 27.81 | 16.84 | 2.24 | 208.57 | 10 | 468.20 | 1066.68 |
| Arman Financial | 661.52 | 173.58 | 165.67 | 14.68 | 3.13 | 775.70 | 10 | 2431.55 | 2547.48 |
| MAS FINANC SER | 1289.50 | 251.05 | 15.31 | 20.32 | 2.86 | 108.71 | 10 | 311.05 | 5100.79 |
| Akme Fintrade India Limited | 71.26 | 16.33 | 3.83 | 31.36 | 1.45 | 82.74 | 10 | 120.00 | 512.10 |

***Peer companies financials are TTM based**
****Akme Fintrade India Ltd. are based on TTM**

## Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.120, the stock is priced at pre issue P/E of 23.28x on an Estimated Annualised FY24 EPS of Rs.5.16. Post issue, the stock is priced at a P/E of 31.36x on its EPS of Rs.3.83. Looking at the P/B ratio at Rs.120 pre issue, book value of Rs. 68.51 of P/Bvx 1.75x. Post issue, book value of Rs. 82.74 of P/Bvx 1.45x.

Considering the P/E valuation, on the lower end of the price band of Rs.114, the stock is priced at pre issue P/E of 22.11x on an Estimated Annualised FY24 EPS of Rs.5.16. Post issue, the stock is priced at a P/E of 29.79x on its EPS of Rs.3.83. Looking at the P/B ratio at Rs.114 pre issue, book value of Rs. 68.51 of P/Bvx 1.66x. Post issue, book value of Rs. 82.74 of P/Bvx 1.38x.

## Industry Outlook

NBFCs' Assets Under Management is expected to grow in single digits (between 7-8%) in FY24 on the back of NBFCs continued focus on extending credit facilities to that segment of consumers where the penetration of bank is relatively low, the demand for credit from the retail segment will also continue to flow to NBFCs. Continuous investments in technology infrastructure and ease of access to internet will fuel the growth of NBFC in upcoming years. There would be steady demand from retail segments specially from Housing loans and Vehicle loans segments which will continue growth momentum of NBFC sector. In the recent past, many NBFCs have improved in terms of liquidity, capital and provisioning which along with improving economic activity would enable NBFCs to comfortably position itself to capitalize the growth opportunities in the years to come, however there will be competition from banks. On Asset Quality front the recent change in NPA recognition norms by RBI to a daily due-date basis instead of the month-end will have implications. However, the increase in GNPAs because of the revised income recognition, asset classification and provisioning norms will be largely an accounting impact because given the improving economy, the credit profiles of borrowers are not expected to deteriorate. Consequently, ultimate credit losses are not expected to change significantly. As on March 2023, the total outstanding vehicle loan portfolio of NBFC segment was approximately INR 7.4 Lakh Crore, with nearly 75% of them being commercial vehicle loans. NBFC share in total two-wheeler loan portfolio is nearly 65% while its share in passenger vehicle is close to 25%. In CV financing segment, the market share of NBFC is closer to 62% (including new and used CV financing).

## Outlook

Aasaan Loans offers loans for vehicles and small businesses in rural and semi-urban areas. They are launching a digital lending platform soon (currently in testing for two-wheeler loans). While it has a large portion of its loans in business loans, it also has a higher NPA (Non-Performing Asset) ratio compared to competitors. This may be an investment opportunity for high-risk appetite investors seeking long-term gains.

**An Indicative timetable in respect of the Issue is set out below:**

| EVENT | INDICATIVE DATE (On or about) |
|---|---|
| BID/ISSUE OPENS ON | 19-June-24 |
| BID/ISSUE CLOSES ON | 21-June-24 |
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 24-June-24 |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 25-June-24 |
| Credit of Equity Shares to Demat Accounts of Allottees | 25-June-24 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 26-June-24 |

# Annexure

## Consolidated Financials

### Profit & Loss

Rs. in Cr.

| Particulars | Period ended 31-Dec-23 (9 Months) | Period ended 31-Mar-23 (12 Months) | Period ended 31-Mar-22 (12 Months) |
|---|---|---|---|
| Interest Earned | 50.77 | 64.87 | 84.17 |
| Interest Expended | 20.64 | 35.00 | 48.04 |
| **Net Interest Income** | **30.13** | **29.87** | **36.12** |
| Other Income | 2.67 | 2.63 | 2.63 |
| **Total Net Income** | **32.81** | **32.50** | **38.75** |
| Other Expenses | 17.26 | 24.22 | 18.89 |
| **PBDT** | **15.55** | **8.28** | **19.86** |
| Depreciation | 0.39 | 0.69 | 0.65 |
| **Re-stated Profit / (Loss) before exceptional items** | **15.16** | **7.59** | **19.21** |
| Tax | 2.91 | 3.47 | 2.90 |
| **PAT** | **12.25** | **4.12** | **16.30** |

### Other financial and operational metrics

| Particulars | 31-Dec-23 | 31-Mar-23 | 31-Mar-22 |
|---|---|---|---|
| AUM (Rs. In cr) | 379.46 | 354.16 | 351.32 |
| ROA (%) | 2.93 | 4.05 | 1.10 |
| ROE (%) | 1.78 | 1.75 | 2.60 |
| Gross NPA (%) | 3.94 | 4.57 | 4.90 |
| Net NPA (%) | 1.94 | 3.45 | 4.06 |
| Average Cost of Borrowing (%) | 11.07 | 13.56 | 12.78 |
| Provision Coverage Ratio (%) | 50.85 | 24.66 | 17.20 |
| Net Interest Margin (%) | 8.22 | 10.05 | 7.73 |
| Capital Employed Ration (%) | 8.69 | 12.47 | 11.61 |

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

| Particulars | As on 31-Dec-23 | As on 31-Mar-23 | As on 31-Mar-22 |
|---|---|---|---|
| **Non-current assets** | | | |
| Deferred tax Assets | 2.51 | 0.99 | 1.99 |
| Property, Plant and Equipment | 17.53 | 5.49 | 6.07 |
| Right of use assets | 0.00 | 0.39 | 0.53 |
| Other Intangible Assets | 1.01 | 0.38 | 0.35 |
| Other Non-Financial assets | 0.56 | 0.19 | 0.16 |
| **Total non-current assets** | **21.61** | **7.44** | **9.10** |
| **Current asset** | | | |
| **Financial Assets** | | | |
| Cash and cash equivalents | 13.06 | 0.74 | 10.60 |
| Bank Balances other than cash and cash equivalents | 1.42 | 1.18 | 2.72 |
| Loans | 367.56 | 342.87 | 412.84 |
| Investments | 0.20 | 0.20 | 0.20 |
| Other Financial assets | 14.11 | 21.58 | 19.94 |
| **Total current assets** | **396.35** | **366.57** | **446.30** |
| **Total Assets** | **417.96** | **374.01** | **455.40** |
| **Non-current liabilities** | | | |
| Current tax liabilities (net) | 1.89 | 2.28 | 3.63 |
| Provisions | 1.64 | 1.01 | 1.04 |
| Other non-financial Liabilities | 0.26 | 1.03 | 0.53 |
| **Total Non- Financial liabilities** | **3.78** | **4.32** | **5.20** |
| **Financial Liabilities** | | | |
| Trade Payables | 0.45 | 0.22 | 0.33 |
| Debt Securities | 0.00 | 10.00 | 10.00 |
| Borrowings (Other than Debt Securities) | 175.19 | 200.06 | 287.82 |
| Subordinated liabilities | 20.00 | 20.00 | 20.00 |
| Other financial Liabilities | 1.52 | 2.56 | 1.78 |
| **Total Financial liabilities** | **197.16** | **232.85** | **319.93** |
| **Total** | **200.95** | **237.17** | **325.13** |
| Net worth represented by: | | | |
| Equity Share Capital | 31.68 | 21.82 | 21.82 |
| Other equity | 185.34 | 115.03 | 108.45 |
| **Net Worth** | **217.01** | **136.84** | **130.26** |

## RANKING METHODOLOGY

| | |
|---|---|
| **WEAK** | ★ |
| **NEUTRAL** | ★★ |
| **FAIR** | ★★★ |
| **GOOD** | ★★★★ |
| **EXCELLENT** | ★★★★★ |

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