Akme Fintrade (India) Limited

19-June-24

Subscribe- Long Term

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MANAN GOYAL
Digitally signed by MANAN GOYAL
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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	1,320
Fresh Issue (No. of Shares in Lakhs)	110
Offer for Sale (No. of Shares in Lakhs)	NIL
Bid/Issue opens on	19-Jun-24
Bid/Issue closes on	21-Jun-24
Face Value	₹ 10
Price Band	114-120
Minimum Lot	125

Objects of the Issue

- **Fresh Issue: 1,320 million.**
  - augmenting the capital base of the company to fulfil its future capital requirements
  - meeting Issue-related expenses

Book Running Lead Managers
Gretex Corporate Services Limited
Registrar to the Offer
Bigshare Services Private Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	500.00
Subscribed paid up capital (Pre-Offer)	316.75
Paid up capital (Post - Offer)	426.75

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	56.0	41.6
Public	44.0	58.4
Total	**100**	**100**

Financials

Particulars (₹ In million)	9M FY24	FY23	FY22	FY21
Interest Income	**534**	**695**	**674**	**862**
Interest Expense	206	277	350	480
NII	**328**	**419**	**324**	**382**
Other Income	0	1	1	6
Other Expense	177	219	249	195
EBT	**152**	**200**	**76**	**193**
Tax	29	42	35	29
PAT	**123**	**158**	**41**	**164**
EPS	**2.87**	**3.70**	**0.97**	**3.82**
Ratios	**9M FY24**	**FY23**	**FY22**	**FY21**
NIM	8.22%	10.05%	7.73%	8.02%
PATM	22.93%	22.73%	6.11%	18.92%
Sales growth		3.07%	-21.74%	

Sector- NBFC **Company Description**

Akme Fintrade (India) is a non-banking finance company ("NBFC") incorporated in the year 1996, registered with the Reserve Bank of India as a Non-systemically important non-deposit taking company with over two decades of lending experience in rural and semi-urban geographies in India. They are primarily engaged in rural and semi-urban-centric lending solutions to look after the needs and aspirations of the rural and semi-urban populace. Their portfolio includes Vehicle Finance and Business Finance Products to small business owners. Company has a long history of serving rural and semi-urban markets with high growth potential and have 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, they strategically focus on clients in the rural and semi-urban sector. Their digital lending platform, www.aasaanloans.com, is currently under development and will be rolled out in a phased manner.

This digital lending platform, www.aasaanloans.com, 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, their 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. Company is rigorously scrutinizing all aspects of Two-wheeler finance and subjecting them to stress testing using various parameters to ensure alignment with the anticipated credit standards before expanding the rollout to a broader audience at their branches. As a preliminary measure, they have 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.

Company carries out their operations in the format of a "hub & spoke" business model. They conduct their retail operations through their registered office located in Udaipur, Rajasthan, having 6 branches in Rajasthan and 6 branches located in the states of Maharashtra, Gujarat, and Madhya Pradesh, respectively. They also have points of sale in 25 locations across India. In small business finance and vehicle finance businesses, their branches act as the primary point of sale and assist with the origination of loans, various collection processes, and enhancing customer service, while their central support office provides support functions, such as loan processing and credit monitoring. Company maintains clear segregation between their sourcing and credit approval teams to ensure independence and effectively manage operational risks. Their enterprise-wide loan management system integrates all activities and functions within their organization under a single technology and data platform, bringing efficiencies to their back-end processes and enabling them to focus their resources on delivering quality services to their customers.

Valuation

Akme Fintrade (India) Ltd. is well established Vehicle Finance, small businesses lending business with customer centric approach and deep understanding of target customers and access to diversified sources of capital and effective asset liability management along with Hub and Spoke business model that improves efficiencies and decreases costs.

At the upper price band company is valuing at P/E of 27.64x, P/BV of 1.52x with a market cap of ₹ 5,121 million post issue of equity shares and return on net worth of 7.72%.

We believe that the IPO is fairly priced and recommend a "**Subscribe- Long Term**" rating to the IPO.

Products

Company operates two principal lines of business, namely,

1. Vehicle financing, comprising of Used Commercial Vehicle, 2-Wheeler Loans, Used 2-Wheeler Loans; and

2. Business Finance to small business owners and SME/MSME business owners.

Vehicle Finance

The Vehicle Finance business primarily involves providing financing for purchases of two-wheelers and three-wheelers passenger vehicles used or new commercial vehicles. Their vehicle finance operations involve a relatively larger sourcing team as compared to their other business lines as it is largely based on their experience of working with customers with limited credit history and their ability to effectively assess risks associated with financing used vehicles. As of December 31, 2023, their Vehicle Finance Credit Exposure amounted to ₹ 7,879.63 lakhs. Their customers are predominantly transport operators, small businesses and self-employed and salaried individuals, who generally contribute between 10.00% and 30.00% of the purchase price of the asset financed with the balance lent by them. Companies secure their loans through the hypothecation of each asset financed.

Two-wheelers and Three-Wheelers

The company finances the purchase of new two-wheelers and Three Wheelers, such as Scooters, motorcycles and auto rickshaws to salaried professionals and self-employed non-professionals. They are headquartered in Udaipur and have their presence in the state of Rajasthan, Madhya Pradesh, Gujarat and Maharashtra. They believe that Vehicle Finance business requires local on the ground presence. They have hired professionals with relevant experience to develop their vehicle finance business. Company intends to leverage the relationships of their team members to make their footprints PAN India.

Used commercial Vehicles

Company finances the purchase of used commercial vehicles, including light commercial vehicles ("LCVs"), which carry goods and passengers, and heavy commercial vehicles ("HCVs"), which carry goods. For LCVs, their customers are typically medium and small fleet operators. For HCVs, their customers are typically transport operators and small businesses.

Business Finance to small business owners including SME and MSME

Their lending business to small business owners, including SME and MSME lending business, primarily involves them extending secured loans for business purposes to small and medium-sized enterprises, including businessmen, traders, manufacturers, and self-employed professionals. The property securing these loans is typically completed and largely self-occupied residential and commercial property. They currently provide business loans from their branches located across four states in India. They believe that their in-depth product knowledge, relevant financial services domain knowledge, ability to structure loans to suit their customers' financial needs, and their short turnaround time for processing loan applications have positioned them as a preferred credit provider and allow them to benefit from the growing SME and MSME segment in India. Their total credit exposure as of December 31, 2023, is ₹ 37,946.28 lakhs, out of which 79.23% of the total credit exposure is of SME/business loan, which is ₹ 30,066.65 lakhs.

The following table sets out the product-wise revenue of their company for the periods indicated below:

(₹ in lakhs)

Business Vertical	For the Year March 31, 2021		For the Year March 31, 2022		For the Year March 31, 2023		For the nine months period ended December 31, 2023	
	Interest Income	% of Interest Income	Interest Income	% of Interest Income	Interest Income	% of Interest Income	Interest Income	% of Interest Income
Four-Wheeler Loan	657.93	7.82%	501.10	7.72%	525.12	8.32%	411.21	8.10%
Business Loan	6,100.74	72.48%	4,723.87	72.82%	4,894.65	77.56%	3,863.00	76.08%
Three-Wheeler Loan	79.19	0.94%	66.36	1.02%	77.97	1.24%	64.44	1.27%
Two-Wheeler Loan	1,579.00	18.76%	1,195.60	18.43%	813.25	12.89%	738.58	14.55%
Grand Total	**8,416.86**	**100.00%**	**6,486.94**	**100.00%**	**6,310.99**	**100.00%**	**5,077.23**	**100.00%**

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

(₹ in lakhs)

Business Vertical	For the Year March 31, 2021		For the Year March 31, 2022		For the Year March 31, 2023		For the nine months period ended 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%	257.80	17.24%
Grand Total	**1,504.04**	**100.00%**	**1,722.33**	**100.00%**	**1,619.88**	**100.00%**	**1,495.37**	**100.00%**

Capital Adequacy Ratio

The company is subject to capital adequacy requirements set out by the RBI for NBFCs. The following table sets forth their Company's capital adequacy ratios as of the dates indicated.

(₹ in lakhs except percentages)

Business Vertical	For the Year March 31, 2021	For the Year March 31, 2022	For the Year March 31, 2023	For the nine months period ended December 31, 2023
Total Assets	45,539.81	37,401.35	39,050.02	41,795.97
Tier I Capital	11,908.59	12,677.49	19,386.62	20,518.24
Tier II Capital	1,562.09	1,208.77	754.07	702.33
Total Capital	13,470.68	13,886.26	20,140.69	21,220.57
Risk Weighted Assets	44,472.15	38,311.24	39,357.86	50,495.71
Capital Adequacy Ratio (%) (CRAR)	30.29%	36.25%	51.19%	42.02%
CRAR - Tier I Capital (%)	26.78%	33.09%	49.27%	40.63%
CRAR - Tier II Capital (%)	3.51%	3.16%	1.92%	1.39%
Total Borrowings to Total Tangible Equity ratio	2.49	1.70	0.88	0.91

Strengths:

- **Proven execution capabilities with a strong rural and semi-urban focus.**

Rural and semi-urban areas in India are a highly underserved market for formal banking services in terms of access, availability, and suitability of products and services. They have a long history of serving rural and semi-urban markets with high growth potential and have 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, they strategically focus on clients in the rural and semi-urban sector. Their 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-month period ended December 31, 2023, respectively.

This underlines the importance of the rural market. The shift in economic profile means the share of agriculture in total economic output has gone down, hence the impact that agriculture has on overall economic growth is lower. However, the sheer size of the rural population means it accounts for a huge pool of the consumer base, albeit untapped. The existing institutional credit agencies primarily meet the agri credit needs of this population, while non-agri credit demand is not met. This presents a huge untapped opportunity. This is a result of focused government policies, market-friendly regulations, and innovations in the NBFC segment. The share of institutional credit in total outstanding credit in rural India has deepened.

- **Well established Vehicle Finance, small businesses lending business.**

They have established a strong market in Vehicle Finance Business and business lending, which includes small business, MSME, and SME businesses.

They believe that the success and continued growth of their business are underpinned by, among others:

(i) Their experience and expertise in identifying and directly sourcing potential borrowers through their knowledge of local markets and customer-centric approach.

(ii) Their ability to offer customized solutions to address their customers' financial requirements.

(iii) Their ability to structure their loan products to maximize returns, where initial fee accruals and the average life of loans being less than the tenor of the loans have allowed them to enjoy relatively higher internal rates of return.

They have achieved growth while maintaining a core focus on conservative credit assessment and risk management, ensuring, among other criteria, that they lend to borrowers with proven track records and strong cash flow, and that they obtain sufficient collateral. They have also built a strong Vehicle Finance Business and small business owners lending business focused on extending secured loans to small and medium-sized enterprises, including businessmen, traders, manufacturers, and self-employed professionals. They believe that the growth of their Vehicle Finance Business and small business is attributable to their reach in rural and semi-urban areas through their network, comprising a strong presence in 4 states, including Rajasthan, Maharashtra, Gujarat, and Madhya Pradesh, with 12 branches and various other locations where they are present, which they believe are key markets in India for Vehicle Finance business and small business lending. In addition, all their loans are secured against collateral, granted at competitive rates of interest, and involve monthly and quarterly loan repayment schedules. They believe that their focus on stringent cash flow-based borrower assessments and having their loans collateralized by completed and largely self-occupied residential and commercial property provides for sustainable and continued growth of their lending business. They believe that their Vehicle Finance Business and business lending businesses provide them with a strong platform for expanding into various geographies in India and new innovative products.

- **Customer centric approach and deep understanding of target customers**

They have gained a deep understanding of their market and customer base over the years that enables them to meet the financial requirements of their existing and potential customers. They believe 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 their network. These practices helped them to achieve their endeavor of having primary lending relationships. Their main focus is on providing their products and services to lower and middle-income group segment customers in their areas of operations. They are a one-stop financial hub for their customers for its financial needs where they operate. As of December 31, 2023, March 31, 2023, and March 31, 2022, they had 32,771, 32,399, 33,959, and 45,315 customers, respectively. Further, as of December 31, 2023, apart from their Registered Office located in Udaipur, Rajasthan and their Corporate Office located in Mumbai, Maharashtra, they have 12 branches and are digitally present in 25 locations. As the majority of their customers are individuals from lower and middle-income group segments, they have designed their products in a manner such that they are simple to understand, which they believe contributes to their popularity amongst customers.

They believe in deep customer engagement at every stage through their relationship managers, deployed at their branches. They strategically follow a hub and spoke business acquisition strategy which helps them to identify the customer needs effectively and respond with solutions. They target customers across the sectors with special attention to rural and semi-urban centers because they believe that they not only run a socially responsible and sustainable business, but also that borrowers in these regions tend to have lower credit penetration. Further, in these markets, there is less competition, lower risk of customer migration (leading to longer, more loyal customer relationships), better credit behaviors, and, in turn, lower delinquency rates.
They also encourage local hiring to stay connected to their customers through personal and digital means and provide them seamless services. They believe that their track record of originating and servicing these loans, together with their extensive network, positions them favorably to compete in these segments and continue to grow their business.

- **Access to Diversified Sources of Capital and Effective Asset Liability Management**

Over the years, they have adopted a calibrated approach towards diversifying their fund-raising sources and minimizing their costs of borrowings with prudent asset liability management and effective liquidity management.

(₹ in lakhs)

Business Vertical	For the Year March 31, 2021	For the Year March 31, 2022	For the Year March 31, 2023	For the nine months period ended December 31, 2023
Total Borrowings	31,782.23	23,006.03	17,776.31	19,518.94

They believe that their focus on building a healthy balance sheet with a balanced mix of assets, liabilities, and equity, along with a positive net asset position, has enabled them to overcome various negative market conditions in the past. They believe that over the years, they have developed a diversified funding base and have established strong relationships with their lenders. Their funding requirements are met through short and medium-term funding sources such as loans from banks and financial institutions, NCDs (Non-Convertible Debentures), and ECBs (External Commercial Borrowings). As of December 31, 2023, their borrowings (other than debt securities and subordinated debts) amounted to ₹ 17,518.94 lakhs, and subordinated liabilities were ₹ 2,000.00 lakhs. They benefit from a large and diversified mix of lenders that has increased over the years, including public banks, private banks, foreign funding, and financial institutions to meet their capital requirements. They have been continuously widening their lender pool with the aim of adding different types of lenders every year. They have also entered into Co-lending agreements with other financial institutions, enabling them wider access to the credit market in the priority sector.

Key Strategies:

- **Increase focus on Digitization and expanding product portfolio.**

Their 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 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, their 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. They are rigorously scrutinizing all aspects of Two-wheeler finance and subjecting them to stress testing using various parameters to ensure alignment with the anticipated credit standards before expanding the rollout to a broader audience at their branches. As a preliminary measure, they have 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. With the new and upcoming digital platform "Aasaan Loans," they believe in assisting small businesses in growing by providing loans to those with potential and intent. Many such businesses have little or no access to capital from traditional banks and other financial institutions, or they lack either collateral or a financial data trail to obtain loans.

Following are the loan products that they are intending to offer through digital lending platform:

a. Aasaan Mahila Udhyog loan
b. Aasaan Saral Udhyog loan
c. Aasaan Vehicle Loan
d. Aasaan Farm equipment loan
e. Aasaan Loan Against Property

- **Deepen, strengthen, and expand geographical Presence**

Company strives to be a low-cost, lean, and efficient digital lending company having presence in four states that leverages technology and their existing distribution network to channel their products and services. Currently, they operate through their registered office located at Udaipur, Rajasthan, and their Corporate Office located in Mumbai, Maharashtra. They have 12 branches located in the states of Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra, and their points of sale are at 25 locations. They plan to further grow their business operations by mining deeper and attracting new customers in their 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. They believe that their 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 provide them with significant competitive advantages in carrying out their expansion plans.

They believe that their existing customers serve as a foundation of their future growth and seek to prioritize their requirements and customize their offerings to provide them with optimal solutions at their doorstep. In addition, they generally seek to establish new branches in areas that are adjacent states to their existing markets, or which may have similar customer demographics and financing needs. In selecting a new business location, they utilize their well-tested area selection analysis which involves a systematic methodology that considers various key parameters such as demand for credit in the area, income levels, and literacy rate of the local population, competition and market potential, economic status of the region including accessibility of internet and mobile connectivity and post offices, road access, and connectivity to important locations such as banks, schools, and hospitals, as well as political, socio-economic, regulatory, and other risks. They believe this allows them to identify markets where they can most easily replicate their business models.

- **Continue to focus on small business owners and self-employed individuals**

The company plans to continue to focus on small business owners and self-employed individuals and increase their 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 credit products such as personal loans, small business loans in the micro-credit segment, and two-wheeler loans (two-wheeler sales in the rural market are expected to reach 2.4 crores units per annum by FY 2027, presenting a strong growth opportunity for two-wheeler financing companies focusing on rural and semi-urban markets). In many locations, they have customers who are first-time borrowers from the formal secured lending ecosystem. They believe their underwriting model, which is based on their understanding of income assessment and collateral assessment for this customer segment, with limited reliance on documented income, is a key strength which would make customers prefer them over their competitors and which they intend to reinforce to achieve Gross Term Loans growth.

- **Enhance their Brand Recall to Attract New Customers.**

Company believes that having a strong recognizable brand is a key attribute in their business, which will help them attract and retain customers, increase customer confidence, and influence purchase decisions. Having a strong and recognizable brand will also assist them in recruiting and retaining employees. They intend to continue to undertake initiatives to increase the strength and recall of their 'Aasaan Loans' brand to attract new customers. They seek to build their brand by engaging with existing and potential customers through customer literacy programs, sponsoring popular events in the regions they operate, and advertising in newspapers, hoardings, and other advertising media. They have recently introduced their brand "Aasaan Loans" launched digital platform for operations and will continue to invest in various brand enhancement initiatives.

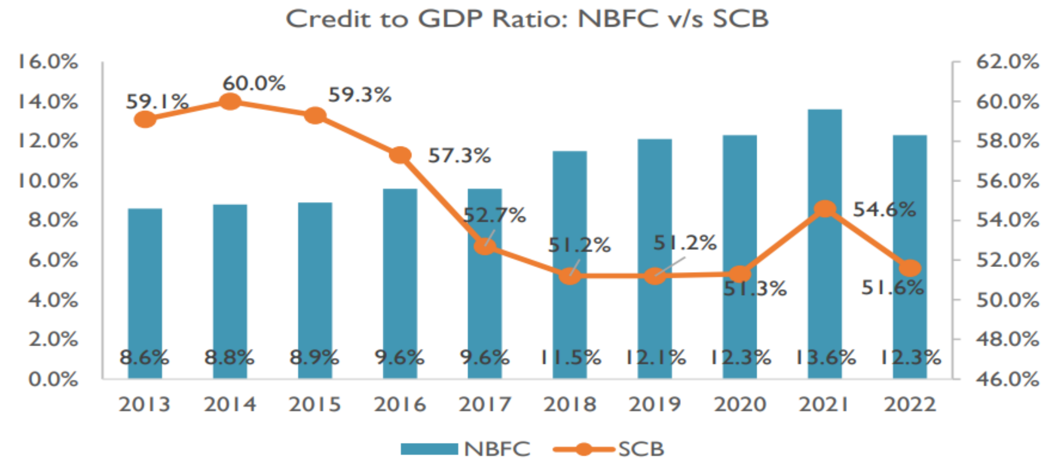
- **Leverage their Network, Domain Expertise and Data to Enhance Product Offering.**

While they intend to continue to focus on their core business of providing financing services, they believe additional products and cross-selling opportunities also help strengthen their relationship with customers and enable higher customer retention. They plan to leverage their large branch network and deep understanding of rural and semi-urban customers, as well as harness the scale and loyalty of their customer base built throughout rural and semi-urban India, to offer additional financing products to existing customers who have a positive track record of loan repayment. They expect to derive benefits from economies of scale as there is limited incremental sourcing cost for existing customers, and these customers are eligible to borrow higher loan amounts since they have progressed to higher loan cycles. They believe this strategy serves as an effective mitigation mechanism from potential interest rate volatility and would contribute to their profitability. They seek to develop new product adjacencies based on the needs of their customers that complement their existing loan categories. They believe that their large customer base provides significant opportunities for increased cross-selling and up-selling of products and services. They plan to continue utilizing their distribution channel to provide other financial products and services under the finance umbrella to customers with good credit histories, such as for the purchase of livelihood and productivity-enhancing products including mobile handsets, bicycles, and kitchen appliances.

- **Industry Snapshot:**

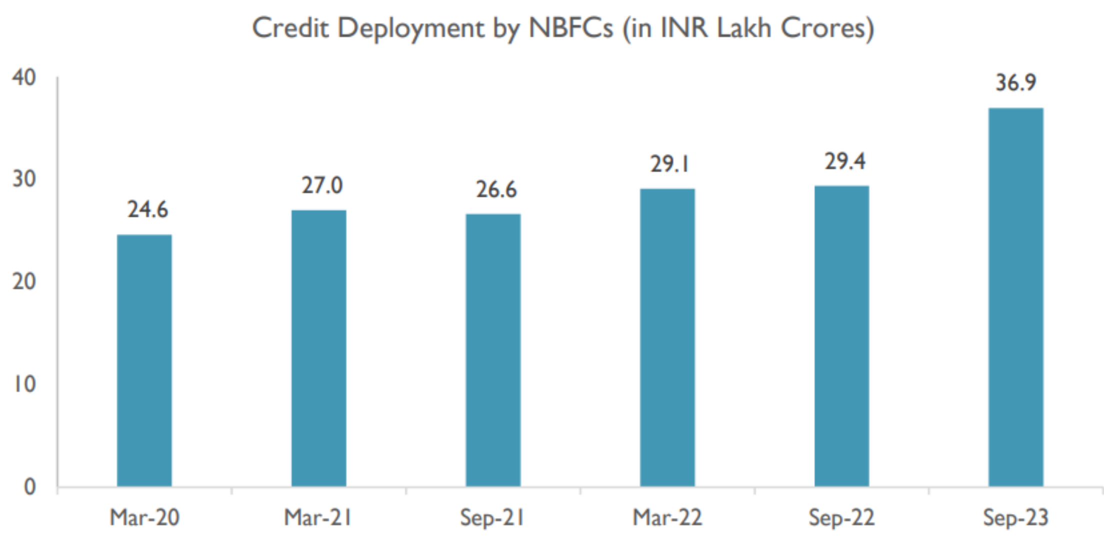
  - **Indian NBFC**

Industry Indian NBFC industry is a minor player in global NBFC space, and accounts for less 1% of the total NBFC asset base globally. Between 2002 and 2020, share of India's NBFC industry in global NBFC asset base have increased by 50 to 60 basis points. This reflects the aggressive credit growth achieved by Indian NBFC sector, as it supplemented the mainstream bank financing segment. During the same period, the size of India's NBFC sector as a share of the country's GDP increased from 18% to nearly 60%, underlining the importance of NBFC to the growth of Indian economy. The last eight to ten years has witnessed strong growth in NBFC credit, due to a mix of favorable regulations, innovative product offering, and high credit appetite by consumers. The credit growth in NBFC sector has come at the expense of the bank, with whom they are competing in the small sized retail loan segment. The significance of NBFCs can be gauged by the increasing share of NBFC credit to GDP, as against a declining trend visible in SCBs.



- **Growth in Loan Book**

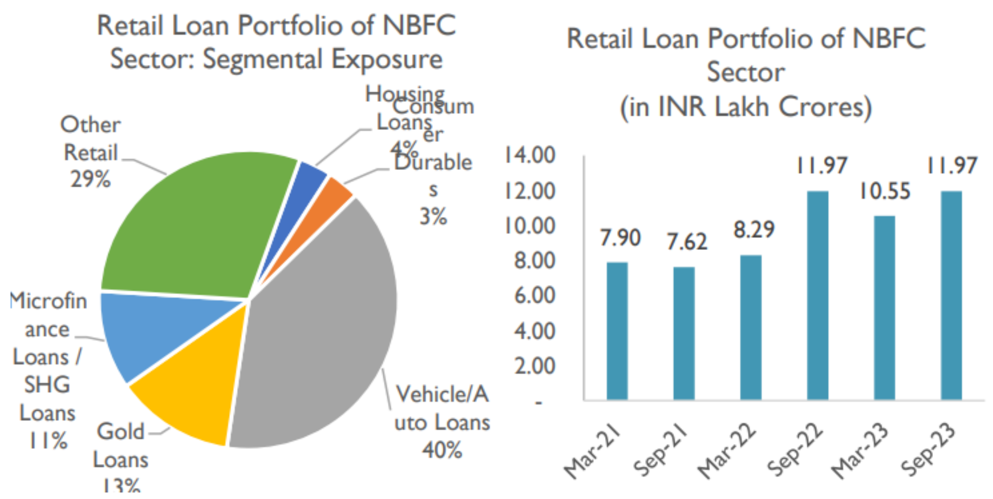
Gross loans & advances outstanding in the NBFC sector stood at INR 26.9 Lakh Crore as on 30th September 2023. There was a slight dip in credit growth in this sector during the first couple of quarters of FY 2021, but since then the growth has remained strong.



Credit disbursement in NBFC sector has grown at a faster pace than bank credit, a trend that has been continuing for the past eight to ten years. Although the overall slowdown in credit growth in last couple of years have impacted the pace of growth, NBFC sector has managed to maintain higher growth rate compared to bank credit.

- **Retail Loan**

Disbursement Pattern FY 2023 witnessed aggressive growth of NBFC retail credit portfolio, as the segment became the largest disburser of retail loans. By end of September 2023, the total outstanding retail credit portfolio of the NBFC sector stood at INR 11.97 Lakh crore, accounting for nearly 30% of the total loan book of the NBFC sector. Vehicle loans dominated the retail loan portfolio of NBFC industry, accounting for nearly 40% of the total loan book as of September 2023. This dominance could be attributed to the leadership of NBFC industry in the two wheeler loan segment – where it has the majority market share.



Key factors fueling the aggressive growth of NBFCs in India

Strong Understanding of customer needs: NBFCs have developed a deep understanding of consumer needs and demands with the help of competent market research teams that periodically take surveys. These surveys prove extremely useful in determining the financial needs of people of different age groups, ethnicity, or job type. As a result, most of these NBFCs are also able to provide financial assistance to the segment of the society that finds it difficult to avail financial aid from traditional banks with rigid policies. NBFC's have strongly focused on unorganized & Under-served segments of the economy, which led the companies to create a niche for themselves through frequent interactions with their customer segments.

Leveraging Technology for Improved Efficiency and Enhanced Experience: Recently, several government banks have gone digital in all their transactions. However, NBFCs have been comparatively pro-active in incorporating technology with all their processes way before them. The use of technology has helped NBFCs in customizing credit assessment models and optimizing business processes, thereby reducing the time to market and helping improve customer experience. NBFCs are investing in data analytics and artificial intelligence to build robust relationships with their target customer segments.

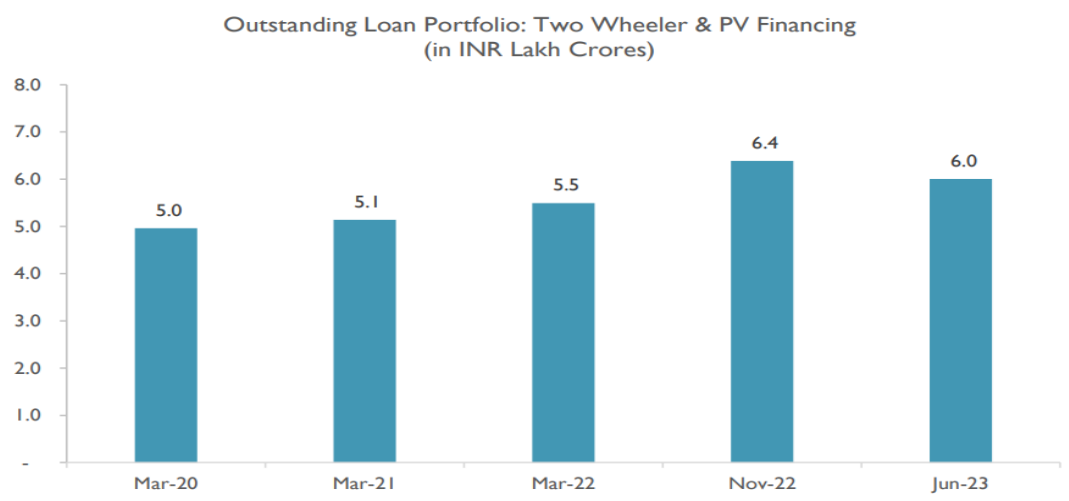
Customized Product Offerings: All the banks provide standard interest rates and charges on their products that are subject to rules and regulations by the RBI. While there are certain RBI guidelines for NBFCs as well, they are not as stringent as those for traditional banking institutes. This allows several NBFCs to opt for non-standard pricing models for product lines, in-line with the customer profile and inherent risk of lending. The facility to avail tailor-made financial products attracts a lot of people to choose these NBFCs over traditional money-lending institutions.

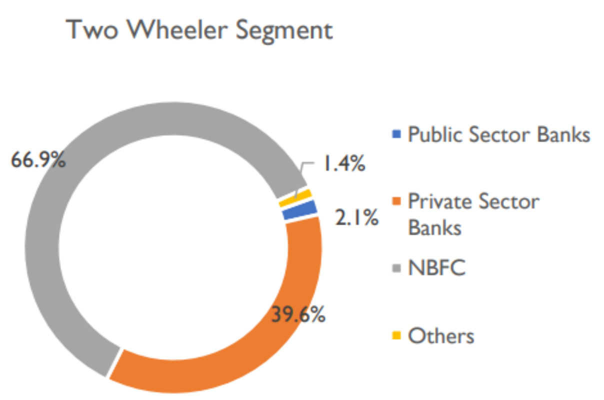
- **Vehicle Lending in India**

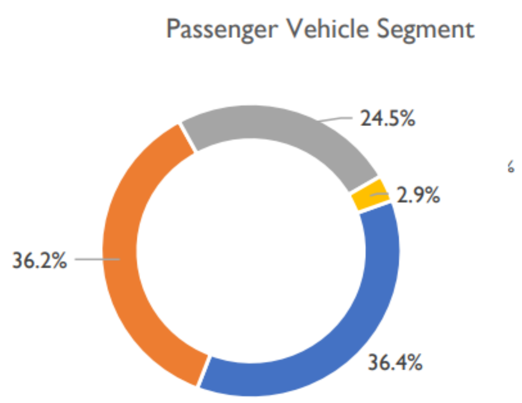
Vehicle finance is estimated to account for nearly 100% of total commercial vehicle sales and 80% of personal vehicle sales in India. In the two-wheeler segment this penetration rate is estimated to be less than 50%. Banks remain a major player in overall vehicle loan market in India, but their share varies with segment. For instance, in two-wheeler loan and commercial vehicle segment NBFC have the upper hand, when compared to passenger vehicle segment.

- **Two-Wheeler & Passenger Vehicle Financing**

By June 2023, the outstanding automobile loans in India was approximately INR 6.0 Lakh Crore. Between March 2019 and June 2023, the outstanding loan portfolio increased by a compounded growth rate of nearly 6.9%. Banks dominate the passenger vehicle loan segment with nearly 73% share while the two-wheeler loan segment is dominated by NBFCs with a market share of nearly 64.5%.







- **Two-Wheeler Demand in Rural Market**

Passenger vehicle sales in rural market is dominated by two-wheeler segment while the penetration of cars / passenger four-wheeler segment remains low. Higher ticket size of the later together with low-income level and challenges in accessing vehicle finance (for four wheelers) are the key hurdles that is preventing the sale of passenger four wheelers in rural market.

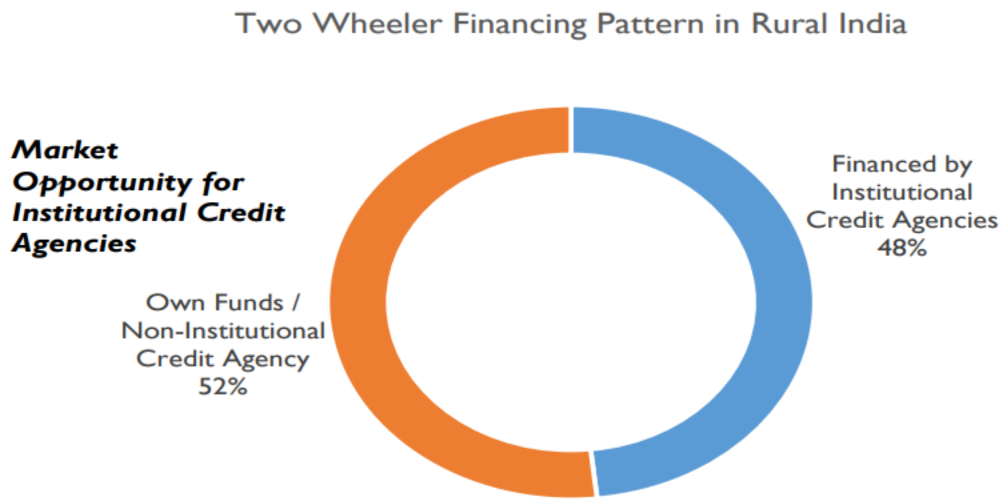
Total sale of two wheelers in rural India is in the range of 87-90 lakh units in FY 2023, accounting for slightly more than 55% of total two-wheeler sales in India. Bulk of the two wheelers sold in rural market are models with engine capacity in the range of 75 – 125 cc, which represents the lowest segment in terms of average ticket size. Approximately 72.8 lakh two-wheeler loans were disbursed in FY 2023. Of the total two-wheeler loans disbursed in FY 2023, nearly 50% were disbursed in rural markets. The share of two-wheeler loans disbursed in rural market has been increasing steadily. Between FY 2018 and FY 2023, the share of rural two-wheeler loans increased by nearly 10 percentage points.

- **Used two-wheeler demand in India**

The onset of pandemic saw a shift in transportation pattern with commuters switching to private transport options. Given the budget constraints, the pickup in vehicle demand varied from region to region. In urban markets, this development benefited the sale of passenger cars while in rural markets the sale of two wheelers received momentum. Used two wheelers were also one of the beneficiaries of this development. Considering the lower purchasing power in rural markets, used two wheelers with a lower price tag emerged as a popular alternative to new vehicles. The pandemic has severally impacted the livelihood and earning potential in rural & semi-urban markets and this in turn has impacted the purchasing decisions – favoring lower priced used vehicle options. In addition, the price hike of newer vehicles has also helped increase the demand for used two wheelers.

- **Two-Wheeler Financing in Rural India**

In FY 2023, the total number of two-wheeler loans disbursed in rural market was nearly 36 lakhs, while the total number of two-wheelers sold in rural market is in the range of 87 to 90 lakh units. Thus, only half of the total two-wheeler sales in rural market are financed by institutional credit agencies while rest is financed either by own funds or through non-institutional credit agencies. Given the low-income levels in rural market, a large part of the two-wheeler purchases not covered by institutional lending would be financed by non-institutional / informal segment. In FY 2023, this accounted for nearly 54 lakh two wheelers sold in rural market, and this presents the untapped market potential for institutional credit agencies.



➢ **Accounting ratios**

Particulars	For the Year March 31, 2021	For the Year March 31, 2022	For the Year March 31, 2023	For the nine months period ended December 31, 2023
Gross NPA ratio (%)	3.57%	4.90%	4.57%	3.94%
Net NPA ratio (%)	2.97%	4.06%	3.45%	1.94%
Operating Expenses to Average AUM (%)	2.63%	3.70%	5.18%	3.32%
Average cost of borrowing (%)	13.40%	12.78%	13.56%	11.07%
Cost to income ratio (%)	30.52%	43.95%	43.61%	37.09%
Provision Coverage Ratio (%)	16.94%	17.20%	24.66%	50.85%
Average yield on Gross Loan Book (%)	18.69%	16.80%	17.89%	13.84%
Net Interest Margin (%)	8.02%	7.73%	10.05%	8.22%
Total Interest income (₹ in lakhs)	8,416.86	6,486.94	6,310.99	5,077.23
AUM (₹ in lakhs)	42,100.78	35,131.79	35,416.11	37,946.28
Net Worth (₹ in lakhs)	13,026.36	13,684.44	20,478.11	21,701.25
Tangible Net Worth (₹ in lakhs)	12,739.42	13,508.33	20,217.46	21,349.08
Leverage (AUM/ Net worth)	3.23	2.57	1.73	1.75
AUM/ Tangible Net Worth	3.30	2.60	1.75	1.78
Restated Profit After Tax for the Year / Period (₹ in lakhs)	1,630.49	412.07	1,580.27	1,224.66
RoA (%)	3.58%	1.10%	4.05%	2.93%
ROE (%)	12.52%	3.01%	7.72%	5.64%
Return on Tangible Equity	13.81%	3.14%	9.37%	5.89%

Comparison with listed entity

Name of the company	Face Value (₹)	Total Revenue, for Fiscal 2023 (in ₹ million)	EPS (Basic) (₹)	EPS (Diluted) (₹)	P/E	P/BV	NAV (₹ per share)	RONW%
Akme Fintrade (India) Limited	10	695.7	3.70	3.70	27.64*	1.52	64.65	7.72%
Peer Group								
MAS Financial Services Limited	10	9,902.6	37.18	37.18	26.47	3.54	277.83	13.55%
Shriram Finance Limited	10	3,05,083.9	160.54	159.83	14.73	2.03	1,162.12	13.82%
Cholamandalam Investment and Finance Company Limited	2	1,31,055.9	32.44	32.38	33.52	6.22	174.52	18.58%
Arman Financial Service Limited	10	4,239.0	110.47	107.28	20.99	5.23	430.61	25.65%
CSL Finance Limited	10	1,175.3	22.02	21.40	22.70	2.78	174.85	12.59%

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on February 21, 2024.
2) */** P/E and EPS of company is calculated on basis TTM, and post issue no. of equity shares issued.

Key Risk:

- Company have experienced a decline in revenue in Fiscal Year 2022 and may consider experiencing such decline in the future.
- The Company has higher levels of NPAs as compared to some of its peer companies and hence their business may be adversely affected if they are unable to provide for such higher levels of NPAs.
- Company did not comply with certain RBI norms/guidelines in the past. Non-compliance with the RBI's norms/guidelines and violations of regulations prescribed by the RBI, could expose them to certain penalties and restrictions.
- Company has in the past, made certain issuances and allotments of their equity shares which may not be in compliance with the applicable provisions and rules of the Companies Act, 1956. They cannot guarantee that they will not be subject to any other complaints and penalties in the future regarding the said violations.
- Their business and operational presence is concentrated in the State of Rajasthan and their result of operations may be adversely affected by difficulties in expanding their business or pursuing new business opportunities in new regions and markets.
- Their credit ratings are presently low and any future downward revision in their credit ratings could adversely affect their ability to service their debts as well as raise funds in the future hence affecting their results of operations and financial conditions.

Valuation:

Akme Fintrade (India) Ltd. is well established Vehicle Finance, small businesses lending business with customer centric approach and deep understanding of target customers and access to diversified sources of capital and effective asset liability management along with Hub and Spoke business model that improves efficiencies and decreases costs.

At the upper price band company is valuing at P/E of 27.64x, P/BV of 1.52x with a market cap of ₹ 5,121 million post issue of equity shares and return on net worth of 7.72%.

We believe that the IPO is fairly priced and recommend a "**Subscribe- Long Term**" rating to the IPO.

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Large Caps (Top 100 companies)	**>15%**	**0%-15%**	**Below 0%**
Mid Caps (101st-250th company)	>20%	0%-20%	Below 0%
Small caps (251st company onwards)	>25%	0%-25%	Below 0%

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