

## Press Release

**Khandwala Securities Limited**

**D-U-N-S® Number: 86-430-8297**

January 29, 2019

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 10.00 crore bank facilities of Khandwala Securities Limited. The outlook is '**Stable**'.

Incorporated in 1993, Khandwala Securities Ltd (KSL) is engaged in providing capital market products and services such as share broking, investment banking and investment advisory services. The company is led by Mr. Paresh Khandwala having more than four decades of experience in the industry. KSL is a member of Bombay Stock Exchange (BSE) & National Stock Exchange (NSE), and offers equity, equity derivatives, currency derivatives, NSE debt market, merchant banking and portfolio management services. The equity shares of the company are listed with BSE since July 1996 and NSE since February 2001.

### Analytical Approach

The company has consolidated business and financial risk profile of KSL and its associate Trumonee financial limited to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Strong promoter experience**

The company is promoted by Mr. Paresh Khandwala having experience of more than four decade in the capital market industry. It is reflected from long track record of operations and long term relationship with its institutional clients.

#### Weaknesses

- **Modest scale of operations coupled with profitability pressures**

Despite market presence for more than four decades, KSL's operations remain modest resulting in low profitability. Its revenues were at Rs. 3.84 Cr for FY2018 as against Rs. 4.95 Cr in FY2017 and Rs. 3.49 Cr in FY2016. The profitability of the company has been impacted due to lower volumes coupled with high overheads mainly legal expenses. It reported losses in the past three years: (-) Rs. 0.75 Cr, (-) Rs. 0.61 Cr, and (-) Rs. 0.70 Cr in FY2018, FY 2017 and FY 2016, respectively. The company believes that with resolution of some of the major pending cases in the near term, it will be able to improve its scale of operations and profitability over the medium term.

Acuité believes that KSL's ability to improve its scale of operations and its profitability will remain a key monitorable.

- **High repayment obligations vis-à-vis cash flow visibility**

KSL has outstanding cumulative redeemable preference shares of Rs. 2.00 Cr, which is to be redeemed in tranches over the next one year: Rs. 0.125 Cr each in December 2018 and March 2019 and Rs. 1.75 Cr in December 2019. Also, the company has not paid dividend on these preference shares since FY 2009 amounting to Rs. 2.00 Cr till FY 2018. Earlier, the company had undertaken variation of the rights of the preference shareholders by extending the maturity date due to tight

liquidity.

The company had adequate cash and cash equivalents to meet the relatively small redemption due in December 2018 and March 2019 primarily from the sale of the property by the company in September 2018. However, its ability to manage the cashflows to meet the large redemption obligation in December 2019 will remain a key monitorable. KSL expects to realise a sizeable amount of funds from the various amount due to the company linked to the various investments/pending legal cases. Its ability to timely recover these amounts and/or arrange for additional funding will remain a key monitorable to ensure timely redemption of the preference shares.

### Liquidity Position

KSL has bank facilities comprising of bank overdraft and bank guarantee which are primarily used for the capital market business. The bank overdraft has relatively moderate utilization and the bank guarantee is currently backed by fixed deposits to the extent of the 50% of the limit.

KSL had an outstanding loan of Rs. 2.59 Cr as on March 31, 2018 from a corporate entity. The same was repaid in September 2018 out of the proceeds from the sale of property. The balance amount from the sale proceeds is expected to be utilized for redemption of preference shares due in December 2018 and March 2019. However, its ability to manage the cashflows to meet the large redemption obligation in December 2019 will remain a key monitorable.

### Outlook: Stable

Acuite believes that KSL will maintain a 'stable' credit risk profile over the near term. The company will continue to benefit from its experienced promoters. The outlook may be revised to 'Positive' if there is healthy improvement in earnings profile and strong capital structure. However, the outlook may be revised to 'Negative' in case of any significant deterioration in earnings or defaults in repayment obligations.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY15 (Actual)
Total Assets	Rs. Cr.	6.70	6.95	7.17
Total Income (Net of Interest expense)	Rs. Cr.	3.56	4.61	3.17
PAT	Rs. Cr.	-0.76	-0.61	-0.7
Net worth	Rs. Cr.	22.5	23.25	23.86
Return on Average Assets (RoAA)	(%)	-2.07	-1.66	-1.82
Return on Average Net worth (RoNW)	(%)	-3.32	-2.59	-2.86
Total Debt/Tangible Net Worth	Times	0.22	0.21	0.21
Gross NPA	(%)	NA	NA	NA
Net NPA	(%)	NA	NA	NA

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

None

### Any other information

SEBI vide its Order No. WTM/RKA/EFD/DRA-11/45/2015 dated 13th May, 2015 had suspended the Certificate of Registration of the Company as a Stock Broker at National Stock Exchange of India Limited (SEBI Registration No.INB230600030) for a period of one month. Currently, the said matter is pending for hearing before the Hon'ble Supreme Court of India.

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Assigned)

### Contacts

Analytical	Rating Desk
Vinayak Ramakrishna Nayak Head - Financial Sector Ratings Tel: 022-67141111 <a href="mailto:vinayak.nayak@acuite.in">vinayak.nayak@acuite.in</a>  Ayushi Rathore Analyst - Rating Operations Tel: 02249294055 <a href="mailto:ayushi.rathore@acuite.in">ayushi.rathore@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.