

## Press Release

### Khandwala Securities Limited

December 05, 2019

#### Rating Reaffirmed



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

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed a 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 (KSL). The outlook is '**Stable**'.

Incorporated in 1993, Khandwala Securities Ltd (KSL) is engaged in providing capital market products and services such as stock 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, wholesale debt market, merchant banking, depository participant and portfolio management services. The equity shares of the company are listed with BSE and NSE. The company is also a category I merchant banker registered with SEBI.

#### Analytical approach

Acuite has considered a consolidated business and financial risk profile of Khandwala Securities Limited, which includes its associate Trumonee Financial Limited to arrive at the rating.

#### Key Rating Drivers

##### Strengths

##### • Established track record and experienced management:

The company is promoted by Mr. Paresh Khandwala having experience of more than four decades in the capital market industry. It is reflected in its long track record of operations and long term relationship with its institutional clients. The company also has a diversified product offering in different segments – institutional equity, investment banking, investment advisory and private wealth management services.

Acuite believes that KSL will continue to benefit from experienced management and established track record of operations.

##### Weaknesses

##### • Modest scale of operations:

KSL is present in the market since more than four decades; however, its operations remain modest resulting in low profitability. Its revenues were at Rs. 4.19 crore for FY2019 as compared to Rs. 3.84 crore in FY2018. The profitability has been impacted due to lower volumes coupled with high litigation costs. KSL has reported a marginal PAT of Rs 0.19 crore in FY2019 and incurred losses of Rs.0.76 crore in FY2018 and Rs. 0.61 crore in FY2017. The company believes that with resolution of some pending cases will enable to improve its scale of operations and profitability over the medium term.

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

**• Highly competitive and fragmented share broking industry:**

The company is exposed to intense competition in the broking industry with declining brokerage charges introduction of algorithmic trading sub-broker attrition and emergence of new players with technology driven and cost effective business models. Going forward the competition is expected to keep the broking yields under pressure.

**Rating Sensitivity**

- Further decline in earnings and profitability.
- Timely repayments of debt obligations

**Material Covenants**

None

**Liquidity Position: Stretched**

KSL has bank facilities comprising of bank overdraft and bank guarantee, which are largely used for the capital market business. The bank overdraft has 45-50 per cent utilization. KSL had a net cash accrual of less than Rs 0.50 crore against current maturities of debt obligation of Rs 1.55 crore as on March 31, 2019. However the company had a cash and bank balance of Rs ~3.5 crore as on September 30, 2019 which can be utilised for repayment of these debt obligations. Acuite believes the liquidity position will remain stretched in the near to medium term.

**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. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	47.30	37.50	35.90
Total Income (Net of Interest expense)	Rs. Cr.	3.95	3.56	4.61
PAT	Rs. Cr.	0.19	(0.76)	(0.61)
Net worth	Rs. Cr.	25.78	22.50	23.25
Return on Average Net worth (RoNW)	(%)	0.74	(3.39)	(2.63)
Total Debt/Tangible Net Worth	Times	0.83	0.67	0.54
Gross NPA	(%)	NA	NA	NA
Net NPA	(%)	NA	NA	NA

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

Not Applicable

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Entities in service sector - <http://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)

Date	Name of Instrument/Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
29-Jan-2019	Overdraft	Long Term	6.00	ACUITE B / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)

### \*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 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)

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### About Acuité Ratings & Research:

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