

Press Release

Khandwala Securities Limited

February 17, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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**'.

The rating factors in the strength derived from the experienced management led by Mr. Paresh Khandwala having experience of more than four decades in this industry. The rating also derives strength from the established track record of operations, the company has been in the operations for the past 27 years.

The rating is however, constrained due to its modest scale of operations resulting in headwinds in sustaining profitability. The rating is also constrained due to high competition from the new age digital share broking companies.

About the company

Incorporated in 1993, Khandwala Securities Ltd (KSL) is a Mumbai based company, 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 and NSE. The company is also a category I merchant banker registered with SEBI.

Analytical approach

Acuité 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. Extent of Consolidation: Full.

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.

Acuité 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 for more than four decades; however, its operations remain modest, resulting in low profitability. Its revenues were at Rs. 3.38 Cr. for FY2020 as compared to Rs. 4.19 Cr. for FY2019. The profitability has been impacted due to lower volumes coupled with high litigation costs and loss on market operations. KSL has reported a loss of Rs. 3.31 Cr. in FY2020 and a marginal PAT of Rs. 0.19 crore in FY2019. 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

- Ability to scale up operations and profitability.
- Change in regulatory environment.

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 100 percent utilization. The company had a cash and bank balance of Rs 8.18 Cr. as on September 30, 2020 which can be utilised for repayment of the 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 a 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	3.38	4.19
PAT	Rs. Cr.	(3.59)	0.19
PAT Margin	(%)	(106.00)	4.57
Total Debt/Tangible Networth	Times	0.41	0.28
PBDIT/Interest	Times	(3.09)	2.86

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-52.htm>

- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Entities in service sector - <http://acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
05-Dec-2019	Overdraft	Long Term	6.00	ACUITE B / Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)
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 Acuite Ratings & Research:

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