

Press Release

Khandwala Securities Limited

May 18, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.00	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	6.00	ACUITE B Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 continues to factor 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 derives strength from the established track record of operations, the company has been in the operations for the past 27 years. The rating also takes into account improvement in profitability metrics and overall increase in volumes traded at KSL resulting to reduction of losses at the bottom-line. The company reported a loss of Rs 0.20 Cr. for 9MFY22 compared to the loss of Rs 1.65 Cr for FY2021. The improvement in financial risk profile of the company is expected to continue to improve in FY2023 on the back of a revival in the domestic capital markets and the increase in trading volumes. Acuite takes cognizance of KSL's growing retail clientele, higher share of revenues from retail broking with negligible dependence on proprietary profits.

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 KSL's susceptibility to the level of volatility in the capital markets as well as highly competitive landscape in broking business 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

Strength

Established track record and experienced management:

KSL a Mumbai based company is majorly engaged in providing capital market products and services, the equity shares of KSL are listed with BSE and NSE. The company is also a category I merchant banker registered with SEBI. Under capital market products it offers equity, equity derivatives, currency derivatives, NSE debt market, merchant banking and portfolio management services. 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.

Weakness

Modest scale of operations:

KSL is present in the market for over 27 years; however, its operations remain modest, resulting in low profitability. Its operating revenue stood at Rs. 3.80 Cr. for 9MFY22 as compared to Rs. 3.60 Cr. for FY2021 (Rs 2.74 crores for FY2020). The profitability has been impacted due to lower volumes coupled with loss on market operations. KSL has reported a loss of Rs. 1.65 Cr. in FY2021 vis-à-vis a loss of 3.59 crore in FY2020, however the trading volumes have now picked up and KSL has been able to reduce the loss to Rs 0.20 crores for 9MFY22. The company believes that with resolution of some pending cases will enable 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.

Risks involving general economic and market conditions

The company is exposed to intense competition in the broking industry, since broking is a highly volatile and cyclical business with the presence of a large number of established players who provide significant competition to the other fragmented and small players. The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. Also, revenues generated from businesses like broking, wealth management, private client broking and investment advisory business, are directly related to the volume and value of the transactions. Any adverse market movement (downturn) would result in decline in transaction volumes leading to a decline in the group's revenues received from commissions earned from such businesses. Acuité believes that while most of the broking companies have witnessed significant traction in broking volumes during FY2021 on account of sharp rebound in capital as well as commodity markets, the same may not be sustainable. While the Group continues to benefit from its business model the level of activity in the equity, commodities and F&O markets will be key determinant of its revenue profile and future growth trajectory. Given the competition from larger brokerages and technology-focused new entrants, the ability of the group to grow its brokerage revenues on a sustainable basis will be a key monitorable.

Acuité believes that the level of activity in the capital markets will continue to be a key determinant of its revenue profile and future growth trajectory.

ESG Factors Relevant for Rating

Khandwala Securities Limited, has a diversified revenue stream with a majority portion accruing from the financial services sector. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to capital markets to avoid fraud, insider trading and other anti-competitive behavior. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. For the industry, retention, and development of skilled manpower along with equal opportunity for employees is crucial. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The material of environmental factors is low for this industry. KSL maintains adequate disclosures with respect to the various board level committees mainly audit committee, nomination and remuneration committee along with stakeholder management committee. KSL also maintains adequate level of transparency with regards to business ethics issues like related party transactions, investors grievances, litigations, and regulatory penalties for the group, if relevant.

Rating Sensitivity

- Ability to scale up operations and profitability.
- Change in regulatory environment.
- Change in profitability metrics due to sharp movement in capital market

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 almost been fully utilised. The company had cash and cash equivalents worth Rs 5.81 lakhs and bank balances comprising of FDs and Current Accounts worth of Rs 6.30 Cr. as on March 31, 2021. Acuité believes the liquidity position will remain stretched in the near to medium term.

Outlook - Stable

Acuité believes KSL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues, while achieving sustained improvement in operating margins and certain growth prospects in the brokerage business. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

Key Financials - Consolidated

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	3.60	2.74
PAT	Rs. Cr.	(1.65)	(3.59)

PAT Margin	(%)	(45.88)	(131.13)
Total Debt/Tangible Network	Times	0.34	0.35
PBDIT/ Interest	Times	(0.92)	(3.09)

*Operating Income does not include interest on FDs and Other Income

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

None

Any other information

Not applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Feb 2021	Secured Overdraft	Long Term	6.00	ACUITE B Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)
05 Dec 2019	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)
	Secured Overdraft	Long Term	6.00	ACUITE B Stable (Reaffirmed)
29 Jan 2019	Secured Overdraft	Long Term	6.00	ACUITE B Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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