



Press Release
Khandwala Securities Limited
July 31, 2023
Rating Reaffirmed and Upgraded

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

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE B+** (read as **ACUITE B plus**)' from '**ACUITE B**' (read as **ACUITE B**) on the Rs. 6.00 crore bank facilities of Khandwala Securities Limited (KSL). The outlook is '**Stable**'.

Acuite has reaffirmed the short- term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs 4.00 crore bank facilities of Khandwala Securities Limited (KSL).

Reason for upgrade

The rating upgrade factors in the improvement in profitability metrics, overall increase in the volumes traded and healthy capital structure of the company. KSL reported a PAT of Rs. 0.44 Cr in FY2023 as compared to Rs. 0.12 Cr in FY2022, the improvement in the financial risk profile during FY2023 was 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 company's capital structure improved aided by an equity infusion of Rs. 8.75 Cr during FY2023, which resulted into an improvement in the networth base of the company. The company's networth stood at Rs. 26.61 Cr as on March 31, 2023 as compared to Rs. 17.41 Cr as on March 31, 2022.

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, albeit improving profitability. Its operating revenue stood at Rs. 6.26 Cr. for FY2023 as compared to Rs. 6.10 Cr. for FY2022 (Rs. 3.60 Cr for FY2021). The profitability has marginally improved due to increase in trading volumes. KSL has reported a PAT of Rs. 0.44 Cr. in FY2023 vis-à-vis Rs. 0.12 Cr. in FY2022. 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 Adequate

KSL has bank facilities comprising of bank overdraft and bank guarantee, which are largely used for the capital market business. The company had cash and cash equivalents worth Rs 1.59 lakhs and bank balances comprising of FDs and Current Accounts worth of Rs 6.07 Cr. as on March 31, 2023.

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.

Other Factors affecting Rating

None

Key Financials - Consolidated

Particulars	FY23 (Actual)	FY22 (Actual)
Operating Income	6.26	6.1
PAT	0.44	0.12
PAT Margin	7.08	1.95
Total Debt/Tangible Networkth	0.1	0.37
PBDIT/Interest	3.35	1.49

*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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 May 2022	Secured Overdraft	Long Term	6.00	ACUITE B Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)
17 Feb 2021	Secured Overdraft	Long Term	6.00	ACUITE B Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)

Annexure - Details of instruments rated

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

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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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