

Press Release

KIFS Trade Capital Private Limited

February 15, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	300.00	ACUITE A Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs. 300.00 Cr. bank facilities of KIFS Trade Capital Private Limited (KTCPL). The outlook is '**Stable**'.

The rating factors in KTCPL's healthy capital structure, experienced management and support of resourceful promoters and established position in its segment. KTCPL has comfortable capitalization with a networth of Rs. 359.40 Cr. as on September 30, 2021 (provisional). The networth was supported by capital infusion of Rs. 206.58 Cr. by promoters during FY2021. The rating also takes into account improvement in profitability metrics of KTCPL. KTCPL reported an increase in PAT of Rs. 33.05 Cr. for FY2021 as compared to Rs. 9.33 Cr. for FY2020. PAT levels for H1 FY2022 stood at Rs. 15.80 Cr. (provisional). While the dependence on investment income continues to be high as reflected in the surge in earnings of FY2021. The improvement in financial risk profile of the Group is expected to continue to improve in FY2022 on the back of a revival in the domestic capital markets.

The rating is however constrained on account of KTCPL's low proportion of core broking income in the total revenue profile, trading revenues & volume susceptibility to the level of volatility in the capital markets as well as highly competitive landscape in broking business. During FY2021, most of the broking companies have witnessed significant traction in broking volumes on account of sharp rebound and volatility in capital/ commodity markets which may not be sustainable. Going forward, continued promoters support and ability of the company to improve its operating performance are key monitorables.

About the company

Incorporated in 2012, Gujarat based, KIFS Trade Capital is a SEBI registered Intermediary and accordingly carrying out its business as a stock broker member. The company's operations are spread across 13 branches located in 4 states as on December 31, 2021. The company also having wide spread network of Sub-brokers and dealers. The company also provides funding facility for Primary market investment for retail category (IPO Financing).

KTCPL is promoted by the KIFS (Khandwala Integrated Financial Services) Group. The group is engaged in the businesses of capital markets activities since 1987 with presence in segments such as stocks and commodities broking, bullion refining and portfolio management services as well as any movable/ immovable properties. KTCPL is owned by KIFS International LLP through promoters, Mr. Rajesh Khandwala, Mr. Vimal Khandwala and Mr. Jayesh Khandwala.

Analytical Approach

Acuite has taken the standalone business and financial risk profiles of KIFS Trade Capital Private Limited.

Key Rating Drivers

Strength

- **Promoters experience in capital markets**

KIFS group is majorly engaged in the businesses of capital markets activities since 1987 with presence in segments such as stocks and commodities broking, bullion refining and portfolio management services as well as any movable/ immovable properties. KIFS Trade Capital Private Limited (KTCPL) is a SEBI registered Intermediary engaged in the stock market business and is depository participant of NSDL. The management team of KTCPL is led by Promoter-Director Mr. Rajesh Khandwala, Mr. Vimal Khandwala and his professional team. The promoters have over 2 decades of experience in financial services industry and are well supported by seasonal management team. KTCPL has expanded its presence over the years through franchise and sub-brokers adding retail client and institutional clients. The company is supported by the KIFS Group adequately in terms of management support as well as for capital requirements. The holding company infused Rs. 4.65 crore in FY2020 and Rs. 206.58 crore during FY2021. The infusion is on account of perceived opportunity in this segment and which would help in expanding the business prospects. The funds are utilized for developing their security investment portfolio and further for obtaining additional limits from exchanges to provide margins for enabling clients to trade. During FY2022, the company saw an increased trading volume on proprietary/arbitrage book as well as from institutional clients. Going forward the company looks forward to on-board additional intuitional clients and that would drive the business further.

Acuité believes that KTCPL will continue to benefit from its steady retail and new institutional clientele, its healthy client relationships and its experienced management team backed by a favourable capital market environment.

- **Adequate Risk Management Systems**

KTCPL has adequate risk management system. It manages risk by monitoring Value-at-Risk (VaR), time based squaring off, value based squaring off etc. The backend operations team also manages risk through monitoring each and every transaction that takes place. This is particularly relevant for its proprietary/arbitrage trading positions.

Acuité believes the group's risk management practices will remain adequate and support the continuity of its broking and trading operations.

- **Improvement in profitability metrics**

KTCPL's profitability metrics improved on account of increase in traded volumes specially for institutional client and KTCPL's trading desk. KTCPL has onboarded additional institutional clients during 9M FY2022. Reduction in interest expenses also aided in improving profitability metrics. KTCPL's PAT margins have improved to 66.15 percent for FY2021 from 20.24 percent for FY2020. The company has maintained an equity investment portfolio of ~Rs. 300 Cr. as on December 31, 2021. The improvement in earing profile of the company was majorly driven by gains from sale of such investments. KTCPL reported PAT of Rs. 33.05 Cr. for FY2021 as compared to Rs. 9.33 Cr. for FY2020. PAT levels for H1 FY2022 stood at Rs. 15.80 Cr. (provisional).

Acuité takes cognizance of the improvement in KTCPL's profitability metrics however, the same is volatile subject to capital market conditions.

Weakness

- **Susceptibility to uncertainties inherent in the capital markets business; low proportion of brokerage income**

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. Trading volume and earnings depend heavily on the level of trading activity in capital market. The company's revenue has been significantly dependent on gain on sale of investments which is inherently volatile. During FY2020 KTCPL reported total revenue of Rs. 56.58 Cr. However, with improvement in market conditions the group reported total revenue of Rs. 88.54 Cr. of in FY2021. The group's brokerage income has remained stagnant over the years and stood at around Rs. 20-25 Cr. during FY2020 and H1 FY2022. The unaudited financial results for the first 6 months of the FY2022 indicate a sustained uptick in investment income which will ensure a healthy level of earnings in FY2022. 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.

Rating Sensitivity

- Business volumes & operating performance
- Any changes in management and ownership pattern
- Changes in regulatory environment

Material Covenants

KTCPL is subject to covenants stipulated by its lenders/investors in respect of minimum networth stipulation. As per confirmation received by the client, the company is adherence to all the material covenants as stipulated by its lenders/investors.

Liquidity: Adequate

KTCPL has bank facilities comprising of bank guarantee and overdraft facilities, which are used for margin requirements. The bank guarantee has 100 percent utilization levels, while overdraft facilities have low utilization level. The company had a cash and bank balance of Rs 11.73 Cr. as on September 30, 2021. As on December 31, 2021 the company had BG limits of Rs. 570.00 Cr. and OD facilities of Rs. 136.25 Cr. Acuité believes the liquidity position will remain adequate in the near to medium term.

Outlook: Stable

Acuité believes KTCPL 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 - Standalone / Originator

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	50.73	46.10

PAT	Rs. Cr.	33.05	9.33
PAT Margin	(%)	65.15	20.24
Total Debt/Tangible Net Worth	Times	0.01	1.44
PBDIT/Interest	Times	3.57	1.94

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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