Axis Securities Limited

July 18, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	5,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**5,000.00 (₹ Five Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating reaffirmed to the CP of Axis Securities Limited (ASL) derive strength from its strong parentage of Axis Bank Limited (ABL; rated CARE AAA; Stable/CARE A1+), ASL being a wholly owned subsidiary of the bank, with its support in the form of shared brand identity, strong group linkages with managerial and operational support and access to the wide customer base of the bank and financial flexibility being part of the Axis group and expectation of strong continued support from the Axis group.

The rating also factors in ASL's strong retail broking franchise, healthy income profile and profitability, comfortable capitalization levels with low gearing and adequate liquidity position.

The rating also takes a note of the risk inherent in the broking business exposing ASL to volatility in income and profitability with high dependence on capital markets as well as high degree of competition in the sector.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not Applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of the credit profile of ABL resulting into downgrade in rating of ABL could lead similar rating change on ASL
- Significant fall in shareholding of ABL in ASL and weakening of linkage with parent

Detailed description of the key rating drivers

Key rating strengths

Strong parental support with shared brand identity of Axis Bank

ASL is a wholly-owned subsidiary of Axis Bank Limited (ABL) which is third largest private sector bank in India in terms of asset size. Being a subsidiary of ABL, ASL enjoys the benefit in the form of management support, shared brand identity of the Axis group, operational linkages, access to established customer base and franchise of the bank, business synergies which allows the group to offer a full bouquet of financial services. Further, considering the strategic importance of ASL, it is expected to receive timely financial and other support from ABL as and when required

Strong retail broking franchise with adequate risk management

ASL offers broking services to retail customers, both in cash and derivatives market segment and also distributes third party products such as mutual funds, insurance, bonds, fixed deposits, IPOs etc. It is one of the largest bank promoted securities broker in the country in terms of trading accounts.

The company has established its retail broking franchise with majority of the revenue generated from delivery-based cash segment trading with minimal turnover in the currency and commodities trading. The company's total trading turnover increased by 75% from Rs.36,43,550 crore in FY21 to Rs.63,63,939 crores in FY22 and its overall market share stood at 1.02% in cash market segment and 0.89% in derivative market segment in terms of turnover. While majority of the turnover is driven by the F&O segment (97%), majority of the broking revenue is driven by the cash segment due to relatively higher brokerage charges.

Further, the company has started offering margin trading facility (MTF) or e-margin book to its customers and the MTF book stood at Rs.1,145 crore as on March 31, 2022 (P.Y.: Rs.444 crore). The company has plans to scale up its MTF book in the near term.

The company is also a Depository Participant (DP) with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). The company has put in place risk management policy to mitigate credit risk, market risk and the operational risk associated with the equity broking and MTF business as well as compliance with the regulatory requirements.

Healthy earning profile and strong profitability parameters

Increase in brokerage income by 42% to Rs.390.81 crore in FY22 as compared to Rs.275.73 crores in FY21 as the client base increased by 21% to ~31.7 lacs as on March 31, 2022, as compared to ~26.3 lacs as on March 31, 2021, and due to increase in total broking turnover on all exchanges from Rs.36.44 lacs crores in FY21 to Rs.63.63 lacs crores in FY22 witnessing growth of 75%. Depository income increased to Rs.83.61 crores in FY22 as compared to Rs.66.04 crores in FY21 showing growth of 26.6% as clientele increased in FY22. In addition, its revenue sources include interest income from MTF book which constituted 21% of total income for FY21 (P.Y.: 9%) as the MTF book increased to Rs.1,145 crores as on March 31, 2022, as compared to

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rs.444 crores as on March 31, 2021. Fee-based income increased to Rs.24.07 crores in FY22 as compared to Rs.13.27 crores in FY21.
As the company is focusing on scaling up its broking business, the company's total operating income (TOI) of the company has increased by 55.43% in FY22 mainly on account of increase in brokerage income, supported by increase in trading volumes and increase in interest income due to increase MTF book earning high yield. Employee expenses increased by 44% to Rs.169 crores in FY22 as compared to Rs.117 crores in FY21 as ASL opened 13 new branches in FY22 and increase employee count from 1,368 as on March 31, 2021, to 2,053 employees as on March 31, 2022. As on June 30, 2022, ASL has 35 branches as compared to 22 branches as on March 31,2021.
With an increase in TOI in FY22, PAT margin of the company has slightly increased owing to efficient resources management and stood at 39.25% in FY22 as against 38.54% in FY21 (FY20.:11.57%). Further, ROE and ROTA decreased and stood at 32.92% and 11.72% respectively in FY22 as against 35.66% and 17.3% respectively in FY21.

Comfortable capitalization with low gearing
As on March 31, 2022, the company's tangible net worth stood at Rs.696.09 crore as against Rs.459.82 crore as on March 31, 2021, and total debt stood at Rs.982.49 as on March 31, 2022, as against Rs.372.88 crore as on March 31, 2021.
The increase in debt during FY22 was on account of build-up of the MTF loan book resulting in increase in overall gearing to 1.41 times (as per tangible net-worth) as on March 31, 2022, from 0.81 times as on March 31, 2021.
The company plans to scale up its MTF business and would borrow largely through CP to fund its book. ASL has unutilised bank lines of Rs.1,150.25 crores as on March 31, 2022, which can be used to source MTF. The overall gearing of the company is expected to increase in the near to medium term. However, comfort is derived from the fact that ASL has good financial flexibility being a bank based broking house which helps it to generate resources at competitive rates.

Key rating weaknesses
Presence in inherently risky and competitive broking business
ASL's business and earning profile is significantly dependent on income earned as brokerage which contributed to about 59% of its total revenues in FY22. This indicates ASL's dependence on capital market activities which is highly volatile in nature which in turn could impact the earnings profile and profitability of the company.
Further, securities broking has high degree of competition with the entry of zero brokerages and discount broking firms which have reduce the brokerage yields.

Liquidity: Strong
ASL's funding requirements are largely towards maintaining margin with the stock exchanges and for its MTF business. The margin requirements are largely met through bank guarantees and collaterals through bank guarantee and fixed deposits while the company borrows by way of CP for MTF business. As on June 30, 2022, the company had borrowings of Rs.1,025 crore through CP to be repaid within one year. Against which, the company had cash and cash equivalent of Rs.56.68 crore, unutilized lines of credit of Rs.1,373.25 and excess margin available at stock exchange of Rs.313.78 crores as on June 30, 2022. However, the MTF book which has maturity up to one year, as per management, the facility generally gets squared off within 55 days.

Analytical approach
Standalone financial and business profile of ASL along with factoring in the strong linkages and expected support from its parent Axis Bank which holds 100% shareholding.

Applicable criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments

About the company
ASL, incorporated in July 2006, is a wholly-owned subsidiary of ABL. ASL is the third largest bank-led broker in India in terms of trading accounts after Karvy's trading account acquisition and is engaged in the business of broking, distribution of financial products and advisory services. It is registered as a 'Stock Broker' and 'Portfolio Manager'" with Securities and Exchange Board of India (SEBI), 'Corporate Agent' with Insurance Regulatory and Development Authority (IRDA) and as a 'Mutual Find Advisor' with Association of Mutual Funds in India (AMFI). It is a depository participant of National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). ASL is currently a trading-cum-clearing member of Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Multi Commodity Exchange (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX). The company provides its services under its flagship brand 'Axis Direct' and has 35 branches as on March 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Brokerage and Fee income	355.04	498.49
Total operating income	426.97	663.63
PAT	164.55	229.13
Total Assets	1,340.75.	2,568.34
Overall Gearing (times) [Debt / Tangible Net-worth]	0.81	1.41
ROTA (%)	17.3	11.72
RONW (%)	43.61	39.59

A: Audited.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the instruments	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper	INE110O14443	25-Nov-21	4.75%	07-Jul-22	50.00	CARE A1+
Commercial Paper	INE110O14542	09-Feb-22	5.10%	29-Aug-22	100.00	CARE A1+
Commercial Paper	INE110O14575	11-Apr-22	4.35%	11-Jul-22	100.00	CARE A1+
Commercial Paper	INE110O14583	13-Apr-22	4.40%	13-Jul-22	50.00	CARE A1+
Commercial Paper	INE110O14583	13-Apr-22	4.40%	13-Jul-22	50.00	CARE A1+
Commercial Paper	INE110O14591	19-Apr-22	4.40%	19-Jul-22	100.00	CARE A1+
Commercial Paper	INE110O14617	28-Apr-22	4.38%	25-Jul-22	100.00	CARE A1+
Commercial Paper	INE110O14609	28-Apr-22	4.70%	09-Sep-22	100.00	CARE A1+
Commercial Paper	INE110O14617	29-Apr-22	4.53%	25-Jul-22	50.00	CARE A1+
Commercial Paper	INE110O14625	02-May-22	4.82%	21-Sep-22	100.00	CARE A1+
Commercial Paper	INE110O14633	10-Jun-22	5.50%	06-Sep-22	14.00	CARE A1+
Commercial Paper	INE110O14633	10-Jun-22	5.50%	06-Sep-22	86.00	CARE A1+
Commercial Paper	INE110O14641	14-Jun-22	5.64%	13-Sep-22	100.00	CARE A1+
Commercial Paper	INE110O14641	14-Jun-22	5.64%	13-Sep-22	25.00	CARE A1+
Commercial Paper	-	Proposed	-	7-364 days	3,975.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper	ST	5000.00	CARE A1+	-	1)CARE A1+ (19-Jul-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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