Axis Securities Limited

July 19, 2021

Rating

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	5,000*^	**CARE A1+ (A One Plus)**	**Assigned**
Total	**5,000^ (Rs. Five Thousand crore only)**		

Details of instruments/facilities in Annexure-1

**Proposed*

^The actual issuance of Commercial Paper (CP) would be subject to Axis Securities Limited's Board approved limits within the regulatory allowed limit.

Detailed Rationale & Key Rating Drivers

The rating assigned 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 the third largest bank promoted securities broker in the country in terms of trading accounts after Karvy's trading account acquisition.

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 15% from Rs.31,80,916 crore in FY20 to Rs.36,43,550 crore in FY21 and its overall market share stood at 0.92% in cash market segment and 0.54% in derivative market segment in terms of turnover. While majority of the turnover is driven by the F&O segment, 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.443 crore as on March 31, 2021 (P.Y.: Rs.42.98 crore). The company has plans to scale up its MTF book in the near term.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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

Majority of the income of the company is by way of brokerage income which constituted 65% of total income for FY21 (P.Y.: 67%). In addition, its revenue sources include interest income from MTF book which constituted 9% of total income for FY21 (P.Y.: 9%) and fee based income including DP charges which constituted 19% of total income for FY21 (P.Y.: 18%).

As the company is focusing on scaling up its broking business, the company's total operating income (TOI) of the company has increased by 104.47% over FY20 mainly on account of increase in brokerage income, supported by increase in trading volumes. With an increase in TOI in FY21, PBDIT margin and PAT margin of the company has increased owing to efficient resources management and stood at 57.11% and 38.54% respectively in FY21 as against 44.49% and 11.57% (continuing operation) respectively in FY20. Further, ROE and ROTA has also improved and stood at 43.61% and 17.30% respectively in FY21 as against 9.68% and 5.02% respectively in FY20.

Comfortable capitalization with low gearing

As on March 31, 2021, the company's tangible net worth stood at Rs.459.82 crore as against Rs.294.85 crore as on March 31, 2020 and total debt stood at Rs.372.88 crore as against Rs.0.16 crore as on March 31, 2020.

The increase in debt during FY21 was on account of buildup of the MTF loan book resulting in increase in overall gearing to 0.81 times (as per tangible net-worth) as on March 31, 2021 from zero as on March 31, 2020.

The company plans to scale up its MTF business and would borrow largely through CP to fund its book. As a result, 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 65% of its total revenues in FY21. 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 own funds while the company borrows by way of CP and bank lines for MTF business. As on June 30, 2021, the company had borrowings of Rs.500 crore through CP to be repaid within one year. Against which, the company had cash and cash equivalent of Rs.11.66 crore and Rs.77.49 crore unutilized lines of credit as on June 30, 2021. However, the MTF book which has maturity up to one year, however, as per management, the facility generally gets squared off within 30-31 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

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in Ratings
Financial Ratios – Financial Sector
Criteria for 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 22 branches as on March 31, 2021.

Brief Financials (Rs. crore) (As per IND AS)	FY20 (A)	FY21 (A)
Brokerage and Fee income	**177.08**	**355.04**
Total Operating Income	**208.82**	**426.97**
PAT	28.98	164.55
Total Assets	563.52	1338.50
Overall Gearing (times) [Debt / Tangible Net-worth]	0	0.81
ROTA (%)	5.02	17.30
RONW (%)	9.68	43.61
PAT margin (%)	11.57	38.54

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs in Crores)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	-	Upto One Year	5,000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper	ST	5,000.00*	CARE A1+	-	-	-	-

**Proposed*

Annexure -3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No.	Name of the instrument	Complexity level
1	Commercial Paper	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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