Axis Securities Limited (Revised)

July 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	5,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the commercial paper (CP) of Axis Securities Limited (ASL) factors in strength derived from parentage of Axis Bank Limited (ABL; rated 'CARE AAA; Stable') which holds 100% stake in ASL and expectation of continued support from ABL. ASL benefits from the shared brand identity, strong linkages with managerial and operational support and access to the wide customer base of the bank. ASL enjoys financial flexibility being part of the Axis group and is expected to receive timely support from the Axis group as and when required.

The rating also factors in ASL's established retail broking franchise, healthy income profile and profitability and comfortable capitalisation levels with low gearing. The rating also factors in the inherent risk 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: Factors likely to lead to rating actions

Positive factors:

Not applicable

Negative factors:

- Weakening of the credit profile of ABL resulting in the downgrade of its rating, could lead similar changes in the rating of ASL.
- Weakening of parent support or linkage with ABL or significant change in the shareholding of ABL in ASL.

Analytical approach:

Standalone financial and business profiles of ASL along with factoring in the strong linkages and expected support from its parent, ABL, which holds 99.99% shareholding.

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths

Strong parental support with shared brand identity of Axis Bank:

ASL is a wholly-owned subsidiary of ABL, which is the third-largest private sector bank in India. 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. ASL has business synergies which allows the group to offer a full bouquet

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

of financial services to its customers. Furthermore, ASL benefits from widespread presence of ABL across the nation with diverse clientele base which in turn helps ASL in getting leads for its business. The seamless integration of sourcing customer of ABL with ASL as well as the common branding helps in supporting the broking franchise. ASL's operations are profitable, and its internal accruals have been accreting to the net worth with its gearing levels being moderate. Although ASL does not require any capital support in the near term, CARE Ratings expects the company to receive timely financial and other support as and when required from ABL.

Comfortable capital position with low gearing

ASL's tangible net worth (TNW) increased to ₹896 crore as on March 31, 2023, from ₹696 crore as on March 31, 2022, due to accretion of profit. Although the company's overall gearing increased from 1.49x (as per TNW) as on March 31, 2022, to 1.63x as on March 31, 2022, it remained below the regulatory cap of overall gearing of 5x of net worth for margin trading. The borrowings of the company are largely through CP and the increase in the borrowings was to fund its MTF book. The company's MTF book stood at ₹1,497 crore (P.Y.: ₹1,144 crore) and it plans to scale up its MTF business in the near future and would borrow largely through CP to fund its book, as the effective tenure in case of MTF loan is 55 days. Thus, the overall gearing of the company is expected to increase in the near to medium term. As on May 31, 2023, ASL had unutilised bank lines of ₹1,405 crore, which can be used to source MTF book.

Thus, CARE Ratings derives comfort from the fact that ASL has good financial flexibility, being a bank-owned broking house, which helps it to generate resources at competitive rates.

Established retail broking franchise with adequate risk management

ASL offers broking services to retail customers, both in cash and derivatives market segment as well as distributes third-party products, such as mutual funds, insurance, bonds, fixed deposits, etc. It is the third-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. As on March 31, 2023, ASL had an active customer base of 3.55 lakh and almost entire customer base is derived from ABL. The company is planning to acquire customers outside the bank; however, ASL's customers base is expected to be driven by the bank.

Furthermore, the company has started offering margin trading facility (MTF) or e-margin book to its customers and the MTF book stood at ₹1,497 crore as on March 31, 2023 (P.Y.: ₹1,144 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). It has earned ₹78.88 crore by way of depository income during FY23.

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. Thus, the ability of the company to mitigate risk and simultaneously increase the business remains critical for its growth.

Healthy earnings profile; albeit impacted by volatility in capital markets

The company largely derives its income from brokerage and fee revenue which constituted around 63% of the total income and interest income on MTF book which constituted around 35% of the total income for FY23. During FY23, ASL's brokerage revenue witnessed a decline of 10.25% on account of reduction in the turnover of ASL on both the exchanges (NSE & BSE) from ₹1.82 lakh crore in FY22 to ₹1.50 lakh crore in FY23 in cash segment, in line with the overall reduction in the market turnover due to low retail sentiments and high market volatility.

The company's interest income on loans increased from ₹136.36 crore in FY22 to ₹215.53 crore in FY23, as the company has seen growth in its MTF business from ₹1,144 crore as on March 31, 2022, to ₹1,497 crore as on March 31, 2023. ASL's total income increased by 9% from ₹664 crore for FY22 to ₹726 crore for FY23.

The company's interest expenses saw increased to ₹92.02 crore in FY23 vis-à-vis ₹38.69 crore in FY22, as the company saw increase in the CP borrowings coupled with increase in the cost of funds due to a rising interest rate scenario. The IRR for the MTF book ranges from 15% to 18%, while the cost of funds of CP ranged from 7% to 8% during FY23. Further during the year, the company hired new employees taking the total count of employees to 2,156 in FY23 from 2,053 in FY22 and opened one more branch thus leading to the increase in the operating expenses from ₹317 crore in FY22 to ₹362 crore. As a result, in the company's profit after tax (PAT) declined by 12.66% from ₹229.13 crore in FY22 to ₹200 crore in FY23. The return on total assets (ROTA) for FY23 stood at 6.82% as compared with 11.33% for FY22. With increase in the MTF book and possible reversal in the interest rate scenario, the margin in MTF book is expected to stabilise during FY24. Furthermore, with improvement in sentiment in the capital markets, improved focus on the retail segment and acquiring business through franchisee model and partner business model, the brokerage income is expected to improve the revenue and profitability during FY24.

Key weakness

Presence in inherently volatile and competitive broking business

ASL's business and earning profile is significantly dependent on the income earned as brokerage which contributed to about 63.22% of its total revenues in FY23. 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. Furthermore, since the company is into MTF lending, it is also exposed to the credit and market risk. The MTF book of the company has increased from ₹444 crore as on March 31, 2021, to ₹1,497 crore as on March 31, 2023, and it is further expected to increase in future. Furthermore, the securities broking business has high degree of competition, with the entry of zero brokerages and discount broking firms which have reduced the brokerage yields. Thus, the ability of the company to maintain asset quality and increase its brokerage income remains critical for its growth.

Liquidity: Adequate

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 which are backed by fixed deposits, and for MTF business company usually borrows in the form of CP. As on May 31, 2023, the company had borrowings of ₹1,250 crore through CP, an unencumbered cash and cash equivalent of ₹25.89 crore, unutilised lines of credit of ₹1,405 crore, and unutilised margin available at stock exchange of ₹222.89 crore.

Environment, social, and governance (ESG) risks: Not Applicable

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 and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Other Financial Services

ASL, incorporated on July 21, 2006, is a wholly-owned subsidiary of ABL. It is the third-largest bank-led broker in India with a customer base of 38.64 lakh as on March 31, 2023. It is engaged in the business of broking, distribution of financial products and advisory services. The company is registered as a 'Stockbroker' 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 provides its services under its flagship brand 'Axis Direct'. ASL is currently a trading-cum-clearing member of BSE, NSE, MCS, NCDEX. It had 36 branches spread across 21 states as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	420.83	660.0	717.7
PAT	164.55	229.13	200.91
PAT margin	38.54%	34.53%	27.69%
ROTA excluding OCI	17.28%	11.33%	6.82%
Overall gearing	0.81	1.49	1.63

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper	INE110O14AG0	26-Jun-23	7.12%	25-Sep-23	50.00	CARE A1+
Commercial paper	INE110O14AF2	22-Jun-23	7.12%	21-Sep-23	100.00	CARE A1+
Commercial paper	INE110O14AF2	22-Jun-23	7.12%	21-Sep-23	100.00	CARE A1+
Commercial paper	INE110O14AE5	19-Jun-23	7.17%	18-Sep-23	100.00	CARE A1+
Commercial paper	INE110O14AD7	14-Jun-23	7.21%	13-Sep-23	300.00	CARE A1+
Commercial paper	INE110O14AC9	05-Jun-23	7.19%	04-Sep-23	150.00	CARE A1+
Commercial paper	INE110O14AB1	24-May-23	7.18%	23-Aug-23	50.00	CARE A1+
Commercial paper	INE110O14AB1	24-May-23	7.18%	23-Aug-23	50.00	CARE A1+
Commercial paper	INE110O14AA3	22-May-23	7.28%	21-Aug-23	100.00	CARE A1+
Commercial paper	INE110O14997	19-May-23	7.28%	18-Aug-23	100.00	CARE A1+
Commercial paper	INE110O14989	18-May-23	7.37%	17-Aug-23	100.00	CARE A1+
Commercial paper	-	Proposed	-	7-364 days	3800.00	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 2023-2024	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
1	Commercial paper-Commercial paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (18-Jul-22)	1)CARE A1+ (19-Jul-21)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

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

Note on the 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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About us:

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