Axis Securities Limited (Revised)

March 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5,000.00	CARE AAA; Stable	Assigned
Commercial Paper	20,000.00 (Enhanced from 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 the 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 but increasing gearing with scale up in the margin trading funding (MTF) book. 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.
- Increase in overall gearing of the company above 5x

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: Stable

The stable outlook factors in the expectation that ASL will continue to have a healthy and diversified earnings profile considering its strong retail broking franchise and comfortable capitalization of the company along with a good active client base.

Detailed description of the key rating drivers:

Key strengths

Strong parental support with shared brand identity of Axis Bank

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

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 with ABL which allows the group to offer full bouquet 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. CARE Ratings Limited (CARE Ratings) expects the company to receive timely financial and other support as and when required from ABL.

Comfortable capital position

ASL's tangible net worth (TNW) increased to ₹900.75 crore as on December 31, 2023, from ₹896 crore as on March 31, 2023 (₹696 crore as on March 31, 2022) due to accretion of profit. Although the company's overall gearing increased from 1.63x as on March 31, 2023to 3.91x as on December 31, 2023, 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 has been focusing on increasing its MTF book which increased to ₹3,559 crore as on December 31, 2023 from ₹1,497 crore as on March 31, 2023. 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 42-46 days. Thus, the overall gearing of the company is expected to increase in the near to medium term. As on December 31, 2023, ASL had unutilised fund-based bank lines of ₹1,445 crore, which can be used to source MTF book. Furthermore, the company has plans to provide additional products like derivative funding and T+5 product.

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 and fixed deposits, among others. 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 February 29, 2024, ASL had an active customer base of 3.64 lakh and almost entire customer base is derived from ABL. The company is planning to acquire customers outside the bank; however, ASL's customer base is expected to be driven by the bank.

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 in 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; although impacted by volatility in capital markets

The company largely derives its income from brokerage and fee revenue which constituted around 61.66% of the total income and interest income on MTF book which constituted around 30.85% of the total income for 9MFY24. In 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 and 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. However, in the 9MFY24, the company's turnover in cash segment

exceeded the turnover in the entire FY23, standing at 1.74 lakh crore. The company's interest income increased from ₹253 crore in FY23 to ₹282 crore in 9MFY24, largely due to the increase in its MTF business from ₹1,498 crore as on March 31, 2023 to ₹3,559 crore as on December 31, 2023.

The company's interest expenses increased from ₹92 crore in FY23 to ₹135 crore in 9MFY24, as the company witnessed increase in the CP borrowings coupled with increase in the cost of funds due to a rising interest rate scenario. The internal rate of return (IRR) for the MTF book ranges from 10% to 18%, while the cost of funds of CP ranged from 7% to 8.40 % in 9MFY24. The company's cost to income slightly increased from 51% in FY23 to 52% in 9MFY24, due to the increase in the total count of employees from 2,156 in FY23 to 2,254 in 9MFY24. Due to the increased interest expense and slight increase in the cost to income ratio, the company's profit after tax (PAT) margin decreased from 28% in 9MFY23 to 26% in 9MFY24. With increase in the MTF book and possible reversal in the interest rate scenario, the margin in MTF book is expected to stabilise in FY25. With improving sentiment in the capital markets, improving 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 in FY25.

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 61.66% of its total revenues in 9MFY24. 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. As 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 ₹1,497 crore as on March 31, 2023 to ₹3,559 crore as on December 31, 2023 and it is further expected to increase in future. 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 the company usually borrows in the form of CP. As on February 29, 2024, the company had unutilised lines of credit (base fund) of ₹1,445 crore, and unutilised margin available at stock exchange of ₹761 crore.

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

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Rating Watch
Short Term Instruments
Broking Firms

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 and 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)	December 31, 2023 (UA)
Total operating income	420.83	660.0	718.64	752.7
PAT	164.55	229.13	200.91	195.8
Total assets	181.05	389.15	206.39	219.95
ROTA (%)	17.28%	11.33%	6.82%	5.54%
Net NPA (%)	NA	NA	NA	NA
Overall gearing	0.81	1.49	1.63	3.91

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 to 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: Please refer to Annexure-4

Lender details: Please refer to 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	INE110O14CE1	28-02-2024	8.48%	27-02-2025	200.00	CARE A1+
Commercial paper	INE110O14CD3	27-02-2024	8.71%	28-05-2024	100.00	CARE A1+
Commercial paper	INE110O14CC5	26-02-2024	8.71%	27-05-2024	200.00	CARE A1+
Commercial paper	INE110O14CB7	23-02-2024	8.76%	24-05-2024	200.00	CARE A1+
Commercial paper	INE110O14CB7	23-02-2024	8.76%	24-05-2024	200.00	CARE A1+
Commercial paper	INE110O14BZ8	16-02-2024	8.88%	17-05-2024	50.00	CARE A1+
Commercial paper	INE110O14CA9	15-02-2024	8.88%	16-05-2024	200.00	CARE A1+
Commercial paper	INE110O14BY1	13-02-2024	8.88%	14-05-2024	300.00	CARE A1+
Commercial paper	INE110O14BY1	13-02-2024	8.78%	14-05-2024	100.00	CARE A1+
Commercial paper	INE110O14BX3	12-02-2024	8.78%	13-05-2024	125.00	CARE A1+
Commercial paper	INE110O14BW5	05-02-2024	8.70%	06-05-2024	200.00	CARE A1+
Commercial paper	INE110O14BW5	05-02-2024	8.70%	06-05-2024	50.00	CARE A1+

Commercial paper	INE110O14BV7	29-01-2024	8.74%	28-01-2025	100.00	CARE A1+
Commercial paper	INE110O14BV7	29-01-2024	8.74%	28-01-2025	100.00	CARE A1+
Commercial paper	INE110O14BP9	24-01-2024	8.40%	04-04-2024	25.00	CARE A1+
Commercial paper	INE110O14BT1	24-01-2024	8.40%	03-04-2024	25.00	CARE A1+
Commercial paper	INE110O14BU9	19-01-2024	8.53%	19-04-2024	300.00	CARE A1+
Commercial paper	INE110O14BU9	19-01-2024	8.53%	19-04-2024	25.00	CARE A1+
Commercial paper	INE110O14BU9	19-01-2024	8.53%	19-04-2024	50.00	CARE A1+
Commercial paper	INE110O14BP9	05-01-2024	8.10%	04-04-2024	50.00	CARE A1+
Commercial paper	INE110O14BL8	01-01-2024	8.07%	12-03-2024	200.00	CARE A1+
Commercial paper	INE110O14BL8	27-12-2023	8.40%	12-03-2024	50.00	CARE A1+
Commercial paper	INE110O14BL8	27-12-2023	8.40%	12-03-2024	150.00	CARE A1+
Commercial paper	INE110O14BN4	20-12-2023	8.13%	20-03-2024	100.00	CARE A1+
Commercial paper	INE110O14BM6	19-12-2023	8.13%	18-03-2024	100.00	CARE A1+
Commercial paper	INE110O14BM6	19-12-2023	8.13%	18-03-2024	50.00	CARE A1+
Commercial paper	INE110O14BM6	19-12-2023	8.13%	18-03-2024	50.00	CARE A1+
Commercial paper	INE110O14BL8	13-12-2023	8.06%	12-03-2024	100.00	CARE A1+
Commercial paper	INE110O14BL8	13-12-2023	8.06%	12-03-2024	100.00	CARE A1+
Commercial paper	INE110O14BL8	13-12-2023	8.03%	12-03-2024	75.00	CARE A1+
Commercial paper	INE110O14BK0	08-12-2023	8.02%	07-03-2024	25.00	CARE A1+
Commercial paper	INE110O14BK0	08-12-2023	8.02%	07-03-2024	100.00	CARE A1+
Commercial paper	INE110O14BJ2	06-12-2023	8.02%	06-03-2024	200.00	CARE A1+
Commercial paper	INE110O14BI4	04-12-2023	8.05%	04-03-2024	200.00	CARE A1+
Commercial paper	INE110O14BH6	01-12-2023	7.90%	01-03-2024	100.00	CARE A1+
Commercial paper (Proposed)	-	-	-	-	15,800.00	CARE A1+
Fund-based/Non-fund-based-Long Term	-	-	-	-	3,026.00	CARE AAA; Stable
Fund-based/Non-fund-based-Long Term (Proposed)	-	-	-	-	1,974.00	CARE AAA; Stable

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	20000.00	CARE A1+	1)CARE A1+ (14-Jul-23)	1)CARE A1+ (18-Jul-22)	1)CARE A1+ (19-Jul-21)	-
2	Fund-based/Non-fund-based-Long Term	LT	5000.00	CARE AAA; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: None

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based/Non-fund-based-Long Term	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.

Contact us:

Media Contact	**Analytical Contacts**
Name: Mradul Mishra **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Sanjay Agarwal Senior director **CARE Ratings Limited** Phone: +91-22- 6754 3500 / 582 E-mail: sanjay.agarwal@careedge.in Name: Sudhakar Prakasam Director **CARE Ratings Limited** Phone: +91-044 -28501000 E-mail: P.Sudhakar@careedge.in Name: Aditya R Acharekar Associate director **CARE Ratings Limited** Phone: +91-22-67543058 E-mail: aditya.acharekar@careedge.in

About us:

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