Axis Securities Limited (Revised)

August 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5,000.00	CARE AAA; Stable	Reaffirmed
Commercial Paper	20,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the ratings assigned to the Bank Facilities and 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 capitalization levels. It further takes into consideration the increasing gearing levels in line with the 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:

CARE Ratings Limited (CARE Ratings) has analysed the standalone financial and business profiles of ASL along with factoring in the strong linkages and expected support from its parent, ABL, which holds 100% 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

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

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 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 increasing in line with its MTF Book. 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 ₹1,332 crore as on March 31, 2024, from ₹1,008 crore as on March 31, 2023 (₹833 crore as on March 31, 2022) due to internal accrual of profit. Further, due to internal accrual and equity infusion of ₹ 250 crore, the tangible net worth stood at ₹1,703 crore as on June 30, 2024. The Company's fund-based gearing increased from 1.40x as on March 31, 2023, to 3.22x as on March 31, 2024. However, the fund-based gearing decreased marginally to 3.16x as on June 30, 2024, due to the equity infusion in Q1FY25. 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 ₹4,067 crore as on March 31, 2024, from ₹1,506 crore as on March 31, 2023. It further went on to grow and stood at ₹5,177 crore. The Company 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 fund-based gearing of the company will remain at 4.5x-5x levels. 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 fifth-largest bank-promoted securities broker in the country in terms of NSE active clients. The company has established its retail broking franchise with majority of the revenue generated from delivery-based cash segment trading. As on June 30, 2024, ASL had an active customer base of 3.87 lakh of which most of the clients are derived from ABL. The company is planning to acquire customers outside the bank; however, ASL's customer base is expected to be majorly 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 ₹90.45 crore of depository income in FY24.

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 in FY24 reported a total income and profit after tax (PAT) of ₹ 1,144 crore and ₹ 301 crore, respectively, with a PAT Margin and Return on Total Assets (RoTA) of 26.33% and 5.76%, respectively. Further, ASL reported a profit after tax (PAT) of ₹ 122 crore in Q1FY25 with a PAT margin and RoTA (annualized) of 28.60% and 5.78%, respectively. ASL largely derives its

income from brokerage & fee income and interest income on MTF book which constituted 53.39% and 30.76%, respectively, of the total income in FY24 and 51.47% and 33.97%, respectively of the total income in Q1FY25. ASL's total income improved in FY24 from FY23 levels on account of increased brokerage and interest income.

The brokerage income improved from ₹ 351 crore in FY23 to ₹ 563 crore in FY24 due to increased turnover recorded by the clients of ASL. The company's interest income increased from ₹253 crore in FY23 to ₹431 crore in FY24, largely due to the increase in its MTF business from ₹1,506 crore as on March 31, 2023, to ₹4,067 crore as on March 31, 2024.

The company's interest expenses increased from ₹87 crore in FY23 to ₹222 crore in FY24, 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 8.74% in FY24. With increase in the MTF book and possible reversal in the interest rate scenario, the margin in MTF book is expected to stabilize 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 has increased in FY24 and Q1FY25. For FY25, brokerage income is expected to be in line with the performance of Q1FY25 and it will continue to improve the revenue and profitability of the company.

Key weaknesses

Earnings vulnerable to overall market activity levels and competitive pressures

During FY24, the brokerage income formed 49.19% of the total revenue followed by interest on MTF & delayed payment charges (30.76%) and, balance by other sources like depository operations income, FD interest, interest from FI investments, etc. The brokerage income and interest income from MTF lending is directly a function of the market performance, which is highly volatile in nature and exposes ASL's earnings to volatility in stock markets.

Further, the company is exposed to fierce competition in the highly competitive brokerage space and with the introduction of 100% digital and zero brokerage firms the brokerage rates are at competitive levels across the industry. However, with continuous support from the parent banks, bank promoted brokers like ASL have been successful in retaining their customers and survive in this competitive industry. Apart from revenue diversification, the focus of the company has been on maintaining client relationship and hence ASL continues to offer its services in both the forms i.e, traditional (offline) as well as digital investment services.

Given the competitive risks, it will be crucial to monitor the company's ability to improve its market share and enhance profitability.

Susceptibility towards regulatory changes

Capital market industry has witnessed continuous regulatory revisions. With the objective of further enhancing the transparency levels and limiting the misuse of funds, SEBI has introduced a few regulations in the last few years.

In May 2023, SEBI prohibited stockbrokers from using client's funds for bank guarantees (BGs). Brokers now deploy their own funds; hence, increase in the funding requirements is leading to higher finance cost. On-book gearing of the industry players is also increasing post this regulation. In June 2023, SEBI introduced a regulation under which stockbrokers are required to upstream clients' funds to clearing corporation. These funds must be up streamed to clearing corporation in the form of cash, lien on FD receipts or pledged units of mutual fund overnight schemes. Similarly, the funds received from the clearing corporation should be further down streamed to the clients' accounts. This has increased the operational and compliance cost for the brokers. Recently in July 2024, the regulator directed Market Infrastructure Institutes (MIIs) to revise the charge structure and adopt a standardized fee structure to all members, replacing the existing volume-based slab-wise model. This was made to make the MIIs charges "True to Label' for the end clients. Axis Securities is expected to have minimal impact of the same.

CARE Ratings will continue to monitor ASL's ability to adapt its technology, systems, and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile.

Liquidity: Strong

ASL's funding requirements are largely towards maintaining margin with stock exchanges and for its MTF business. Margin requirements are largely met through BGs, which are backed by fixed deposits, and for MTF business the company usually borrows in the form of CP. As of June 30, 2024, ASL had a debt outstanding balance of ₹5,373 crore of which CP constituted ₹5,273 crore. ASL, being the subsidiary of Axis Bank Limited, enjoys financial flexibility and this is evident from the regular rollover of commercial paper (CP) at competitive rates. Furthermore, as on June 30, 2024, it had an unutilised bank line of ₹2,226 crore and unutilised margin available at stock exchanges of ₹944 crore, which can be used in case of emergencies. Additionally, the MTF book as on June 30, 2024, stood ₹5,177 crore which can be liquidated to generate liquidity.

Applicable criteria

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

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Capital Markets	Stockbroking & Allied

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 44.5 lakh as on March 31, 2024. 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, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A) (12m)	March 31, 2024 (A) (12m)	June 30, 2024 (UA) (3m)
Total income	726	1,144	427
PAT	201	301	122
Interest coverage (times)	4.28	2.94	2.67
Total Assets (Adj for intangible and DTA)	3,182	7,280	9,604
Fund based Gearing (times)	1.40	3.22	3.16
RONW (%)	21.82	25.74	32.18

Brief Financials (₹ crore)	March 31, 2023 (A) (12m)	March 31, 2024 (A) (12m)	June 30, 2024 (UA) (3m)
ROTA (%)	6.82	5.76	5.78

A: Audited UA: Un-audited;
Note: 'the above results are latest financial results available'
Note: 'Based on the calculation of CARE Ratings.'

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-Commercial Paper (Standalone)	INE110O14DN0	24-Jul-24	7.77%	23-Oct-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DM2	19-Jul-24	7.75%	18-Oct-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DM2	19-Jul-24	7.75%	18-Oct-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DM2	19-Jul-24	7.75%	18-Oct-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DL4	15-Jul-24	7.95%	24-Feb-25	150	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DK6	20-Jun-24	7.81%	19-Sep-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DJ8	19-Jun-24	7.81%	18-Sep-24	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DI0	18-Jun-24	7.83%	17-Sep-24	175	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DI0	18-Jun-24	7.83%	17-Sep-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DH2	12-Jun-24	7.87%	11-Sep-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DG4	11-Jun-24	7.87%	10-Sep-24	150	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DG4	11-Jun-24	7.87%	10-Sep-24	150	CARE A1+

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-Commercial Paper (Standalone)	INE110O14DG4	11-Jun-24	7.87%	10-Sep-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DG4	11-Jun-24	7.87%	10-Sep-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DF6	07-Jun-24	7.82%	06-Sep-24	250	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DF6	07-Jun-24	7.82%	06-Sep-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DE9	04-Jun-24	7.85%	30-Aug-24	75	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DE9	04-Jun-24	7.85%	30-Aug-24	75	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DD1	04-Jun-24	7.85%	03-Sep-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DC3	28-May-24	7.85%	27-Aug-24	150	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DC3	28-May-24	7.85%	27-Aug-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DC3	28-May-24	7.85%	27-Aug-24	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DB5	27-May-24	7.83%	26-Aug-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14DA7	24-May-24	7.85%	23-Aug-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CZ6	16-May-24	7.99%	14-Aug-24	50	CARE A1+

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-Commercial Paper (Standalone)	INE110O14CZ6	16-May-24	7.99%	14-Aug-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CZ6	16-May-24	7.99%	14-Aug-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CZ6	15-May-24	7.99%	14-Aug-24	150	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CZ6	15-May-24	7.99%	14-Aug-24	250	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CY9	14-May-24	8.00%	13-Aug-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CX1	13-May-24	8.00%	12-Aug-24	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CX1	13-May-24	8.00%	12-Aug-24	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CW3	10-May-24	8.00%	09-Aug-24	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CV5	10-May-24	7.94%	06-Nov-24	25	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CU7	08-May-24	8.05%	10-Mar-25	250	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CT9	30-Apr-24	7.97%	13-Sep-24	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CT9	30-Apr-24	7.97%	13-Sep-24	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CR3	23-Apr-24	7.95%	20-Feb-25	150	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CF8	01-Mar-24	8.48%	28-Feb-25	200	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CE1	28-Feb-24	8.48%	27-Feb-25	150	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14CE1	28-Feb-24	8.48%	27-Feb-25	50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14BV7	29-Jan-24	8.74%	28-Jan-25	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE110O14BV7	29-Jan-24	8.74%	28-Jan-25	100	CARE A1+
Commercial Paper-Commercial Paper (Standalone) (Proposed)	-	-	-	-	14,700	CARE A1+
Fund-based/Non-fund-based-Long Term	-	-	-	-	3,726	CARE AAA; Stable

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
Fund-based/Non-fund-based-Long Term (Proposed)	-	-	-	-	1,274	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 2024-2025	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
1	Commercial Paper-Commercial Paper (Standalone)	ST	20000.00	CARE A1+	-	1)CARE A1+ (27-Mar-24) 2)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	-	1)CARE AAA; Stable (27-Mar-24)	-	-

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

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About us:

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