December 02, 2022

Axis Securities Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	5,000.0	5,000.0	[ICRA]A1+; reaffirmed
Non-convertible debentures	200.0	200.0	[ICRA]AAA (Stable); reaffirmed
Long-term/short-term fund-based/non-fund based bank lines – Others	-	1,800.0	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Shot-term non-fund-based bank facilities	410.0	-	-
Long-term fund-based bank facilities/CC	390.0	-	-
Long-term/short-term fund based/ non-fund-based bank facilities	1,000.0	-	-
Total	**7,000**	**7,000**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in the strong parentage of Axis Securities Limited (ASL), by virtue of being a subsidiary of Axis Bank Limited (Axis Bank; rated [ICRA] AAA (Stable)/[ICRA]A1+). ASL helps augment Axis Bank's service portfolio and enjoys customer sourcing opportunities. Its importance to the parent is evident from the managerial and operational support, shared brand name, and access to the bank's retail clientele, branch network and infrastructure. The ratings also consider its established position in retail broking, supported by its status as a bank brokerage, and its healthy financial profile with strong profitability and adequate capitalisation.

While reaffirming the ratings, ICRA has taken note of the company's growing prominence in the debt-funded margin trade funding (MTF) segment and the resultant increase in the debt and gearing levels in relation to the historical levels. ASL also remains exposed to credit and market risks on account of the MTF lending book, given the volatile nature of the underlying assets. The ratings also factor in the limited diversification in ASL's business profile, exposure to risks associated with capital market related businesses, and the intense competition in the retail broking space.

ICRA also takes note of the investment of ~Rs. 60.5 crore (fair valued at ~Rs. 242 crore) in Max Life Insurance Company Limited {Max Life; rated [ICRA]AA+ (Stable)} as a part of a larger strategic investment by the Axis Group (Axis Bank and its subsidiaries including ASL) in the insurance company. The Axis Group has acquired a 12.99% stake in Max Life, including the ~1% stake held by ASL. ASL has the option to purchase an additional stake in Max Life and there could be further cash outflow towards the same over the near term. Going forward, ASL's ability to continue to ramp up the broking revenues and sustain the net interest income (NII), given the rising interest rate scenario, while ensuring adequate asset quality would be imperative for maintaining the profitability.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a subsidiary of Axis Bank – Axis Bank (along with its nominees) holds a 100% stake in ASL. Given its position as a bank brokerage house, ASL draws the advantage of access to Axis Bank's retail clientele, while it helps augment Axis Bank's service portfolio by offering broking services to its clients. The bank has two representatives on

ASL's board, including the Chairperson of the board. ASL also enjoys financial flexibility owing to its parentage. The strong parentage and the shared brand name support ICRA's assumption that ASL will receive timely and adequate financial and operational support from Axis Bank, if needed.

Established presence in retail broking space – ASL is a retail-focused broking player supported by its linkages with the parent. To enhance its reach further, the company has focused on expanding its franchise and branch network in the past two years. As on September 30, 2022, it had a network of 35 branches and 468 franchises, up from 22 branches and 243 franchises as of March 31, 2021. With a focus on the high-yielding cash segment, ASL has witnessed a steady expansion in the market share of cash volumes across retail segments. The market share of cash volumes in the retail segment increased to 2.06% in H1 FY2023 from 1.88% in FY2022 and 1.58% in FY2021. While the company reported a moderation in the cash average daily turnover (ADTO), given the adverse macroeconomic outlook in H1 FY2023, it reported a 50% year-on-year (YoY) increase in the overall ADTO during this period. This was supported by the healthy growth in derivatives volumes.

Healthy financial profile with strong profitability and adequate capitalisation – ASL witnessed a healthy improvement in its profitability in recent years, supported by industry tailwinds. Its net operating income (NOI) increased at a compound annual growth rate (CAGR) of 46% in the past three years to Rs. 607 crore in FY2022. With increased economies of scale, ASL registered its best-ever profitability in FY2022 with a net profit of Rs. 229.9 crore, up 45% YoY, profit after tax (PAT)/NOI of 37.7% (40.4% in FY2021) and return on equity (RoE) of 38.5%[1]. However, with the slowdown in retail participation on account of weak macroeconomic conditions and elevated geopolitical tensions in H1 FY2023, ASL reported a moderation in its profitability on a YoY basis. Nonetheless, it remains strong with a PAT of Rs. 98 crore, PAT/NOI of 33.8% (past 4-year average of 26.3%) and RoE of 25.8%[1] on a provisional basis.

ASL's capital needs are mainly towards meeting the margin requirements at the bourses and for the MTF business. While the company previously had low levels of borrowings, the same increased in recent years with the material scale-up of the debt-funded MTF book. Notwithstanding this, the capitalisation profile remains adequate with a net worth of Rs. 946.4 crore (including fair value gains (net of tax) of Rs. 137 crore) and a gearing of 1.47 times on the reported net worth as of September 30, 2022 on a provisional basis. While ASL has a track record of dividend pay outs, it has not paid dividends in the past two years. In FY2021, ASL had made an investment of Rs. 60.46 crore in Max Life as a part of the larger strategic investment strategy of the Axis Group. The Axis Group has acquired a 12.99% stake in Max Life, including the ~1% stake held by ASL. ASL has the option to purchase an additional stake in Max Life and there could be further cash outflow towards the same over the near term. In this regard, ASL is expected to receive timely and adequate equity support from Axis Bank, if needed.

Credit challenges

Exposed to risks inherent in capital market related businesses; operations exposed to credit and market risks arising out of MTF funding business – ASL's revenues remain dependent on capital markets, which are inherently volatile in nature. Furthermore, it remains exposed to credit and market risks on account of the MTF lending book, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. ASL forayed into the MTF business in FY2019 and has ramped up its MTF book to Rs. 1,650 crore, as on September 30, 2022, from Rs. 103 crore as on March 31, 2019. Its ability to maintain adequate asset quality while ramping up the lending book would remain a monitorable.

Intense competition in capital markets – With the increasing competition in equity broking and the growing popularity of the discount brokerage houses, ASL's market share in terms of NSE active clients contracted to 1.08% as on September 30, 2022 from 2.41% on March 31, 2021. Pressure on profitability cannot be ruled out as the competitive intensity in this cyclical industry is expected to remain high, especially during the slowdown in capital markets. However, the increasing financialisaton of

[1] *Net worth adjusted for adjusted for contribution from other comprehensive income*

savings and the low share of wallet of the equity segment in household savings indicate huge untapped potential for expansion in the brokerage industry over the longer term.

Liquidity position: Strong

ASL's funding requirement is primarily for placing margins at the exchanges and the MTF book. Its margin utilisation ranged between 53% and 71% during the past 6 months, with the average monthly margin (basis month-end data, including client margin) placed on exchanges aggregating Rs. 883 crore during this period. Further, as on October 31, 2022, it had an unencumbered cash and bank balance of ~Rs. 351 crore and drawable but unutilised fund based lines of Rs. 234 crore. Additionally, the company has loan assets, which may be liquidated at short notice to generate liquidity, if required. The borrowings of Rs. 1,670 crore as of October 31, 2022 are largely from commercial paper (CP) and are falling due during the course of the next three months. The on-balance sheet cash & cash equivalents, undrawn bank lines and inflows from the short-term, callable MTF book cover these debt repayment obligations. ASL also enjoys financial flexibility, being a subsidiary of Axis Bank, and the same is evident from the regular CP issuances, the large investor base and competitive borrowing costs.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be revised in case of a revision in the credit profile of the parent (Axis Bank) or a significant change in the company's shareholding or linkage with the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry Consolidation and Rating Approach Rating Approach – Implicit Support from Parent or Group
Parent/Group support	Axis Bank ASL is a subsidiary of Axis Bank. The strong parentage and shared brand name strengthen ICRA's assumption that ASL will receive timely and adequate operational support from Axis Bank, if needed. The company also enjoys significant financial flexibility by virtue of being a subsidiary of Axis Bank. It draws the advantage of strong operational linkages with the bank as demonstrated by the senior management deputations from the bank along with customer sourcing and cross-selling support.
Consolidation/Standalone	Standalone

About the company

Incorporated in 2006 as a wholly-owned subsidiary of Axis Bank, Axis Securities Limited (ASL) is engaged in the retail equity broking business. With effect from April 1, 2019, ASL exited the business of sourcing financial assets (housing loans, auto loans, loans against property, credit cards, etc) for Axis Bank and providing resource management services to Axis Bank. Going forward, ASL focuses on the broking and capital market businesses. It is currently a trading-cum-clearing member of the Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Multi Commodity Exchange (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX). ASL is a depository participant (DP) of Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL). As of September 30, 2022, ASL caters to 4.02 lakh active NSE clients through a network of 35 branches and 468 franchises.

Key financial indicators (audited)

ASL	FY2021	FY2022	H1 FY2022*	H1 FY2023*
Brokerage income	253.1	364.6	172.6	162.0
Depository income	62.9	78.1	38.0	30.1
Net interest income	49.4	117.2	47.6	74.7
Other fee income	41.3	47.1	29.3	23.3
Net operating income (NOI)	406.8	607.0	287.5	290.0
Total operating expenses	182.9	284.9	119.9	161.9
Profit before tax	214.7	308.3	154.7	132.6
Profit after tax (PAT) excluding OCI	158.9	229.9	114.9	98.2
Loan book (net)	443.7	1,144.9	827.0	1,649.9
Net worth	482.1	848.0	597.3	946.4
Borrowings	372.9	982.5	678.6	1,386.7
Gearing (times)	0.77	1.16	1.14	1.47
Cost-to-income ratio	45.0%	46.9%	41.7%	55.8%
Return on net worth	41.2%	38.5%^	42.6%	25.8%^
PAT/NOI	40.4%	37.7%	39.9%	33.8%

Source: Company, ICRA Research; OCI – Other comprehensive income Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; ^net worth adjusted for contribution from other comprehensive income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Dec 02, 2022	Dec 09, 2021	Jul 19, 2021	Sep 10, 2020	Jun 29, 2020	May 17, 2019
1	Fund-based bank lines	Long term	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]A1+	[ICRA]A1+
2	Non-fund based bank lines	Short term	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	ICRA]A1+
3	CP programme	Short term	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	ICRA]A1+
4	CP programme	Short term	5,000.00	1,270.0	[ICRA]A1+	[ICRA]A1+	-	-	-	-
5	NCD programme	Long term	200.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
6	Fund-based/Non-fund based bank lines – Others	Long term/ Short term	1,800.00	610	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-
7	Fund-based/Non-	Long term/ Short term	-	-	-	-	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-

	fund based bank lines									
8	**Fund-based bank lines**	Short term	-	-	**-**	**-**	**-**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures*	Not Applicable
Commercial paper	Very Simple
Fund-based/Non-fund based bank lines – Others	Very Simple

** Yet to be placed*

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE110O14815	**Commercial paper**	Oct 21, 2022	7.18%	Jan 05, 2023	100	[ICRA]A1+
INE110O14815	**Commercial paper**	Oct 21, 2022	7.18%	Jan 05, 2023	100	[ICRA]A1+
INE110O14807	**Commercial paper**	Oct 14, 2022	6.75%	Dec 20, 2022	100	[ICRA]A1+
INE110O14781	**Commercial paper**	Oct 06, 2022	6.85%	Dec 16, 2022	100	[ICRA]A1+
INE110O14799	**Commercial paper**	Oct 03, 2022	6.85%	Dec 14, 2022	100	[ICRA]A1+
INE110O14773	**Commercial paper**	Sep 20, 2022	6.45%	Dec 19, 2022	100	[ICRA]A1+
INE110O14757	**Commercial paper**	Sep 14, 2022	6.40%	Jan 24, 2023	70	[ICRA]A1+
INE110O14740	**Commercial paper**	Sep 12, 2022	6.28%	Dec 12, 2022	100	[ICRA]A1+
INE110O14732	**Commercial paper**	Sep 08, 2022	6.25%	Nov 30, 2022	100	[ICRA]A1+
INE110O14724	**Commercial paper**	Sep 05, 2022	6.31%	Dec 05, 2022	100	[ICRA]A1+
INE110O14716	**Commercial paper**	Aug 29, 2022	6.19%	Nov 01, 2022	100	[ICRA]A1+
INE110O14708	**Commercial paper**	Aug 24, 2022	6.18%	Nov 07, 2022	100	[ICRA]A1+
INE110O14690	**Commercial paper**	Aug 03, 2022	6.08%	Nov 02, 2022	100	[ICRA]A1+
NA	**Commercial paper (yet to be issued)**	NA	NA	NA	3,730	[ICRA]A1+
NA	**Non-convertible debentures (yet to be placed)**	NA	NA	NA	200	[ICRA]AAA (Stable)
NA	**Fund-based/Non-fund based bank lines – Others**	NA	NA	NA	1,800	[ICRA]AAA (Stable) /[ICRA]A1+

Source: Company; Note: ISIN details as on October 31, 2022

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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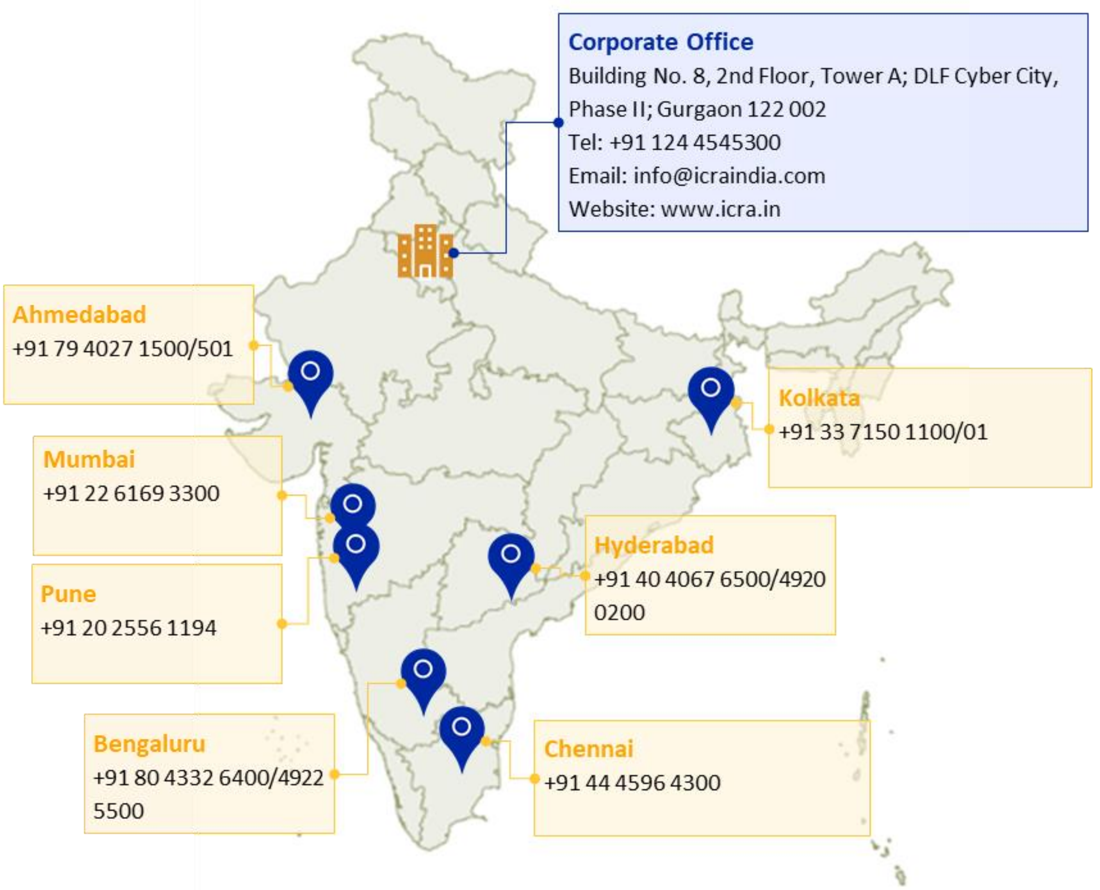
Branches



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