November 30, 2023

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	1,800.0	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Total	**7,000.0**	**7,000.0**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in the strong parentage of Axis Securities Limited (ASL; a subsidiary of Axis Bank Limited[1]), its strong linkage with the parent and the shared brand name. 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 ASL's 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 material increase in the company's debt-funded margin trade funding (MTF) book. This, coupled with increasing working capital requirements amid the evolving broking sector landscape, has resulted in a rise in its financial leverage level in relation to the historical levels. ASL's gearing increased to 2.44 times as on September 30, 2023 from 1.47 times as of September 31, 2022 and 0.77 times as on March 31, 2021. ICRA notes that the incremental growth in the business will primarily be supported by outside borrowings; thus, a further increase in the gearing cannot be ruled out.

The ratings also consider the credit and market risk associated with the margin funding exposures, given the nature of the underlying assets, the risks associated with capital market related businesses and the intense competition in the retail broking space. Going forward, ASL's ability to continue to ramp up the broking revenues and sustain the net interest income (NII) amid the foray of discount brokers into the MTF segment, 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 the 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 expectation that ASL will receive timely and adequate financial and operational support from Axis Bank if needed.

[1] *Axis Bank; rated [ICRA]AAA (Stable) for its Basel III Tier II bonds*

Established track record 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 recent years. As on June 30, 2023, it had 36 branches and 542 franchises across 21 states. Given its focus on the high-yielding cash segment and the increase in leverage positions in the cash segment through the MTF facility, ASL registered a steady expansion in the retail market share of cash volumes to 1.19% in H1 FY2024 from 1.05% in FY2023 and 0.94% in FY2022. Its cash average daily turnover (ADTO) increased by 34% year-on-year (YoY) to Rs. 850 crore in H1 FY2024. Additionally, ASL witnessed a heathy increase in futures & options (F&O) volumes in the past few years amid the growing popularity of options. However, its market share in the F&O segment remains modest.

Healthy financial profile with strong profitability and adequate capitalisation – ASL witnessed a healthy improvement in its revenues and profitability in recent years. Supported by industry tailwinds, the company reported a healthy performance in H1 FY2024 with a net profit of Rs. 112 crore, up 9% and 14%, respectively, on a sequential and YoY basis, and profit after tax (PAT)/net operating income (NOI) of 32% (33% in H2 FY2023). ASL had reported a moderation in FY2023 following a record performance in FY2022 due to dampened investor sentiment, narrowing spreads in the MTF book and rising working capital requirements. However, notwithstanding the 12% YoY decline in the net profit in FY2023, it remained strong with PAT/NOI of 33% and a return on equity (RoE) of 21%.

ASL's capital needs are mainly for meeting margin requirements at the bourses and for the MTF business. While the company had low levels of borrowing historically, the same has increased in recent years with the material scale-up of the debt-funded MTF book and higher working capital requirements in the broking business. Notwithstanding this, the capitalisation profile remains adequate with a net worth of Rs. 1,136.4 crore and a gearing of 2.44 times, as of September 30, 2023, on a provisional basis. While ASL has a track record of dividend payouts, it has not paid dividends in the past three years. As per the management's stated intent, the company plans to plough back its profits for scaling up the broking and MTF business. A portion of ASL's net worth (~Rs. 209 crore as on September 30, 2023) is deployed towards the equity stake purchased by it in Max Life Insurance Company Limited (Max Life). This was acquired as a part of the Axis Group's overall plan to acquire a 19.99% stake in Max Life. While ASL was previously expected to hold a stake of up to 5% in Max Life, no further immediate capital outflow is expected from the company for the acquisition of an incremental stake in Max Life as per the Axis Group's revised plans.

Credit challenges

Exposed to risks inherent in capital market related businesses; operations exposed to credit and market risks associated with MTF – 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. ASL forayed into the MTF business in FY2019 and it ramped up its gross MTF book to ~Rs. 2,776 crore as on September 30, 2023, up 67% YoY. Going forward, its ability to maintain adequate asset quality as well as capitalisation, 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 discount brokerage houses, ASL's market share in terms of National Stock Exchange (NSE) active clients contracted to 0.96% as on October 31, 2023 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 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 growing the MTF book. Its margin utilisation ranged between 66% and 80% (basis month-end data) during April 2023 to September 2023, with the average cash margin placed on exchanges (including client funds) aggregating Rs. 1,450 crore during this period. As on October 31, 2023, ASL had total outstanding borrowings of ~Rs. 2,880 crore with 91% due for repayment within three months while it had an unencumbered cash and bank balance of Rs. 208 crore and drawable but unutilised lines of Rs. 510 crore. Additionally, its short-term loans, which can be liquidated at short notice to generate liquidity if required, stood at Rs. 2,829 crore. ASL also enjoys financial flexibility, as it is a subsidiary of Axis Bank, and the same is evident from the regular commercial paper (CP) issuances, large investor base and competitive borrowing cost.

Rating sensitivities

Positive factors – Not applicable

Negative factors – 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 Rating Approach – Implicit Parent or Group Support
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, the company 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 the bank. ASL now 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 October 31, 2023, it was catering to 3.24 lakh active NSE clients through a network of 36 branches and 562 franchises.

Key financial indicators (audited)

ASL	FY2022	FY2023	H1 FY2024*
Brokerage income	364.6	309.7	199.2
Net interest income	117.4	160.6	89.6
Depository income	68.6	71.5	31.4
Other fee income	47.0	58.3	32.4
Net operating income (NOI)	597.6	600.0	352.7
Total operating expenses	290.5	332.6	197.2
Profit before tax	308.3	272.2	151.6
Profit after tax (PAT) excluding OCI	229.1	200.9	111.7
Net worth	848.0	1,024.8	1,136.4
Borrowings	1,049.5	1,484.1	2,769.5
Gearing (times)	1.24	1.45	2.44
Cost-to-income ratio	48.6%	55.4%	55.9%
Return on net worth	34.5%	21.5%	20.7%
PAT/NOI	38.3%	33.5%	31.7%

*Source: Company, ICRA Research; OCI – Other comprehensive income; *Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	
					Nov 30, 2023	Dec 02, 2022	Dec 09, 2021	Jul 19, 2021	Sep 10, 2020	Jun 29, 2020
1	Non-fund based bank lines	Short term	-	-		-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	CP programme	Short term	-	-		-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based bank lines	Short term	-	-		-	-	-	[ICRA]A1+	[ICRA]A1+
4	CP programme	Short term	5,000.0	2,540.0^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-
5	Fund-based bank lines	Long term	-	-		-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]A1+
6	Fund-based/Non-fund based bank lines – Others	Long term/ Short term	1,800.0	340.0^	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-
7	Fund-based/Non-fund based bank lines	Long term/ Short term	-	-		-	-	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-
8	NCD programme	Long term	200.0	-^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

**As of October 31, 2023; ^Yet to be availed/issued*

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; complexity indicator will be finalised at the time of issuance of the NCDs*

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
INE110O14BD5	Commercial paper	Nov 16, 2023	7.87%	Feb 14, 2024	100.00	[ICRA]A1+
INE110O14BF0	Commercial paper	Nov 16, 2023	7.87%	Feb 15, 2024	100.00	[ICRA]A1+
INE110O14BD5	Commercial paper	Nov 15, 2023	7.87%	Feb 14, 2024	200.00	[ICRA]A1+
INE110O14BC7	Commercial paper	Nov 13, 2023	7.86%	Feb 07, 2024	25.00	[ICRA]A1+
INE110O14BC7	Commercial paper	Nov 08, 2023	7.78%	Feb 07, 2024	200.00	[ICRA]A1+
INE110O14BB9	Commercial paper	Oct 25, 2023	7.83%	Jan 24, 2024	25.00	[ICRA]A1+
INE110O14BB9	Commercial paper	Oct 25, 2023	7.83%	Jan 24, 2024	200.00	[ICRA]A1+
INE110O14BA1	Commercial paper	Oct 23, 2023	7.83%	Jan 22, 2024	75.00	[ICRA]A1+
INE110O14BA1	Commercial paper	Oct 23, 2023	7.83%	Jan 22, 2024	100.00	[ICRA]A1+
INE110O14AZ0	Commercial paper	Oct 18, 2023	7.71%	Jan 17, 2024	200.00	[ICRA]A1+
INE110O14AY3	Commercial paper	Oct 13, 2023	7.69%	Jan 12, 2024	100.00	[ICRA]A1+
INE110O14AY3	Commercial paper	Oct 13, 2023	7.69%	Jan 12, 2024	100.00	[ICRA]A1+
INE110O14AX5	Commercial paper	Oct 11, 2023	7.58%	Dec 27, 2023	100.00	[ICRA]A1+
INE110O14AX5	Commercial paper	Oct 11, 2023	7.58%	Dec 27, 2023	100.00	[ICRA]A1+
INE110O14AX5	Commercial paper	Sep 27, 2023	7.42%	Dec 27, 2023	65.00	[ICRA]A1+
INE110O14AW7	Commercial paper	Sep 20, 2023	7.45%	Dec 20, 2023	100.00	[ICRA]A1+
INE110O14AW7	Commercial paper	Sep 20, 2023	7.45%	Dec 20, 2023	100.00	[ICRA]A1+
INE110O14AW7	Commercial paper	Sep 20, 2023	7.45%	Dec 20, 2023	100.00	[ICRA]A1+
INE110O14AV9	Commercial paper	Sep 13, 2023	7.45%	Dec 13, 2023	25.00	[ICRA]A1+
INE110O14AV9	Commercial paper	Sep 13, 2023	7.45%	Dec 13, 2023	25.00	[ICRA]A1+
INE110O14AV9	Commercial paper	Sep 13, 2023	7.45%	Dec 13, 2023	100.00	[ICRA]A1+
INE110O14AU1	Commercial paper	Sep 06, 2023	7.38%	Dec 06, 2023	100.00	[ICRA]A1+
INE110O14AT3	Commercial paper	Sep 05, 2023	7.38%	Dec 04, 2023	200.00	[ICRA]A1+
INE110O14AT3	Commercial paper	Sep 04, 2023	7.38%	Dec 04, 2023	25.00	[ICRA]A1+
INE110O14AS5	Commercial paper	Aug 29, 2023	7.38%	Nov 28, 2023	200.00	[ICRA]A1+
NA	Commercial paper (yet to be issued)	NA	NA	NA	2,335.00	[ICRA]A1+
NA	Non-convertible debentures (yet to be placed)	NA	NA	NA	200.00	[ICRA]AAA (Stable)
NA	Fund-based/Non-fund based bank lines – Others	NA	NA	NA	1,800.00	[ICRA]AAA (Stable) /[ICRA]A1+

Source: Company; Note: ISIN details as on November 16, 2023

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.

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