

March 27, 2024^(Revised)

Axis Securities Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	5,000.0	10,000.0	[ICRA]A1+; reaffirmed and assigned for the enhanced amount
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	12,000.0	

*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+), 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 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 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 2.9 times as on December 31, 2023, from 1.4 times as of March 31, 2023. 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 take into account 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), 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 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 the recent years. As on June 30, 2023, it had 36 branches and 542 franchises across 21 states. With the company's focus on the high-yielding cash segment coupled with increase in leverage positions in the cash segment through MTF facility, ASL registered a

steady expansion in the retail market share of cash volumes to 1.23% in 9M FY2024 from 1.05% in FY2023 and 0.94% in FY2022. ASL's cash ADTO increased to Rs. 946 crore in 9M FY2024, 57% increase from FY2023 levels. Additionally, ASL also witnessed a healthy increase in F&O volumes in past few years amid growing popularity of options; nonetheless the market share in the F&O segment continues to be modest.

Healthy financial profile with strong profitability and adequate capitalisation – ASL witnessed a healthy improvement in its revenues and profitability in recent years. In the current fiscal, supported by industry tail winds, the company reported a healthy performance in 9M FY2024 with net profit of ~Rs. 196 crore, 32% YoY growth and profit after tax (PAT)/net operating income (NOI) of 33% (32% in 9M FY2023) and return on equity of 23% (22% in 9M FY2023). Earlier, ASL reported a moderation in performance in FY2023 following a record performance in FY2022 amid dampened investor sentiments, narrowing spreads in MTF book and rising working capital requirements. However, notwithstanding the 12% YoY decline in net profit in FY2023, it remained strong.

ASL's capital needs are mainly for meeting the margin requirements at the bourses and for the MTF business. While historically, the company had low levels of borrowing; the same increased in recent years with material scale up of debt funded MTF book and increased working capital requirements in broking business. Notwithstanding this, the capitalisation profile remains adequate with a net worth of ~Rs. 1,221 crore and a gearing of 2.9 times as of December 31, 2023, on a provisional basis. While ASL has a track record of dividend pay outs, it has not paid dividends in the past three years. As per the management stated intent, going forward ASL plans to plough-back the profits for scaling the broking and MTF business.

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 has ramped up its net MTF book to ~Rs. 4,312 crore, as on February 29, 2024, 2.9 times increase from March 2023 levels. Going forward, its ability to maintain adequate asset quality and capitalisation profile 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 0.89% as on February 29, 2024 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 financialisation 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 49% and 84% (basis month-end data) during April 2023 to February 2024, with the average cash margin placed on exchanges (including client funds) aggregating Rs. 1,738 crore during this period. As on February 29, 2024, ASL had total outstanding borrowings of ~Rs. 4,275 crore with 91% due for repayment within three months while it had an unencumbered cash and bank balance of Rs. 3 crore and drawable but unutilised lines of Rs. 1,245 crore. Additionally, its short-term loans, which can be liquidated at short notice to generate liquidity if required, stood at ~Rs. 4,312 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	Stockbroking and Allied Services 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)

Axis Securities Limited	FY2022	FY2023	9M FY2024*
Net operating income	597.6	600.0	586.7
Profit after tax excluding OCI	229.1	200.9	195.8
Net worth	848.0	1,024.8	1,220.6
Total assets	2,720.3	3,198.9	6,244.5
Gearing (times)	1.2	1.4	2.9
Return on average net worth	34%	21%	23%

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

Sl. No		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	
						Mar 27, 2024	Nov 30, 2023		Dec 02, 2022	Dec 09, 2021	Jul 19, 2021	Sep 10, 2020
1	Non-fund based bank lines	Short term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2	Fund-based bank lines	Short term	-	-	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+	
3	CP programme	Short term	10,000.0	4,200.0^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Fund-based bank lines	Long term	-	-	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]A1+	
5	Fund-based/Non-fund based bank lines – Others	Long term/ Short term	1,800.0	925.0	[ICRA]AAA (Stable)/ [ICRA]A1	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	
6	Fund-based/Non-fund based bank lines	Long term/ Short term	-	-	-	-	-	-	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-	
7	NCD programme	Long term	200.0	-^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	

*As of February 29, 2024; ^Yet to be availed/issued

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures*	Very Simple
Commercial paper	Very Simple
Fund-based/Non-fund based bank lines – Others	Very Simple

* Subject to change when the terms are finalised

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
NA	Non-convertible debentures (yet to be placed)	NA	NA	NA	200.0	[ICRA]AAA (Stable)
NA	Fund-based/ Non-fund based bank lines – Others	NA	NA	NA	1,800.0	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Commercial paper (yet to be issued)	NA	NA	NA	5,800.0	[ICRA]A1+
INE110O14CE1	Commercial paper	Feb 28, 2024	8.48%	Feb 27, 2025	150.0	[ICRA]A1+
INE110O14CE1	Commercial paper	Feb 28, 2024	8.48%	Feb 27, 2025	50.0	[ICRA]A1+
INE110O14CD3	Commercial paper	Feb 27, 2024	8.71%	May 28, 2024	100.0	[ICRA]A1+
INE110O14CC5	Commercial paper	Feb 26, 2024	8.71%	May 27, 2024	200.0	[ICRA]A1+
INE110O14CB7	Commercial paper	Feb 23, 2024	8.76%	May 24, 2024	200.0	[ICRA]A1+
INE110O14CB7	Commercial paper	Feb 23, 2024	8.76%	May 24, 2024	200.0	[ICRA]A1+
INE110O14BZ8	Commercial paper	Feb 16, 2024	8.88%	May 17, 2024	50.0	[ICRA]A1+
INE110O14CA9	Commercial paper	Feb 15, 2024	8.88%	May 16, 2024	200.0	[ICRA]A1+
INE110O14BY1	Commercial paper	Feb 13, 2024	8.88%	May 14, 2024	300.0	[ICRA]A1+
INE110O14BY1	Commercial paper	Feb 13, 2024	8.78%	May 14, 2024	100.0	[ICRA]A1+
INE110O14BX3	Commercial paper	Feb 12, 2024	8.78%	May 13, 2024	125.0	[ICRA]A1+
INE110O14BW5	Commercial paper	Feb 05, 2024	8.70%	May 06, 2024	200.0	[ICRA]A1+
INE110O14BW5	Commercial paper	Feb 05, 2024	8.70%	May 06, 2024	50.0	[ICRA]A1+
INE110O14BV7	Commercial paper	Jan 29, 2024	8.74%	Jan 28, 2025	100.0	[ICRA]A1+
INE110O14BV7	Commercial paper	Jan 29, 2024	8.74%	Jan 28, 2025	100.0	[ICRA]A1+
INE110O14BP9	Commercial paper	Jan 24, 2024	8.40%	Apr 04, 2024	25.0	[ICRA]A1+
INE110O14BT1	Commercial paper	Jan 24, 2024	8.40%	Apr 03, 2024	25.0	[ICRA]A1+
INE110O14BU9	Commercial paper	Jan 19, 2024	8.53%	Apr 19, 2024	300.0	[ICRA]A1+
INE110O14BU9	Commercial paper	Jan 19, 2024	8.53%	Apr 19, 2024	25.0	[ICRA]A1+
INE110O14BU9	Commercial paper	Jan 19, 2024	8.53%	Apr 19, 2024	50.0	[ICRA]A1+
INE110O14BP9	Commercial paper	Jan 05, 2024	8.10%	Apr 04, 2024	50.0	[ICRA]A1+
INE110O14BL8	Commercial paper	Jan 01, 2024	8.07%	Mar 12, 2024	200.0	[ICRA]A1+
INE110O14BL8	Commercial paper	Dec 27, 2023	8.40%	Mar 12, 2024	50.0	[ICRA]A1+
INE110O14BL8	Commercial paper	Dec 27, 2023	8.40%	Mar 12, 2024	150.0	[ICRA]A1+
INE110O14BN4	Commercial paper	Dec 20, 2023	8.13%	Mar 20, 2024	100.0	[ICRA]A1+
INE110O14BM6	Commercial paper	Dec 19, 2023	8.13%	Mar 18, 2024	100.0	[ICRA]A1+
INE110O14BM6	Commercial paper	Dec 19, 2023	8.13%	Mar 18, 2024	50.0	[ICRA]A1+
INE110O14BM6	Commercial paper	Dec 19, 2023	8.13%	Mar 18, 2024	50.0	[ICRA]A1+
INE110O14BL8	Commercial paper	Dec 13, 2023	8.06%	Mar 12, 2024	100.0	[ICRA]A1+
INE110O14BL8	Commercial paper	Dec 13, 2023	8.06%	Mar 12, 2024	100.0	[ICRA]A1+
INE110O14BL8	Commercial paper	Dec 13, 2023	8.03%	Mar 12, 2024	75.0	[ICRA]A1+
INE110O14BK0	Commercial paper	Dec 08, 2023	8.02%	Mar 07, 2024	25.0	[ICRA]A1+
INE110O14BK0	Commercial paper	Dec 08, 2023	8.02%	Mar 07, 2024	100.0	[ICRA]A1+
INE110O14BJ2	Commercial paper	Dec 06, 2023	8.02%	Mar 06, 2024	200.0	[ICRA]A1+
INE110O14BI4	Commercial paper	Dec 04, 2023	8.05%	Mar 04, 2024	200.0	[ICRA]A1+
INE110O14BH6	Commercial paper	Dec 01, 2023	7.90%	Mar 01, 2024	100.0	[ICRA]A1+

Source: Company; Note: ISIN details as on February 29, 2024

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

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

Corrigendum

Rationale dated March 27, 2024 has been revised with changes as below:

- Complexity indicator for non-convertible debentures was revised to “Very Simple¹” from “Not Applicable”

¹ Subject to change when the terms are finalised

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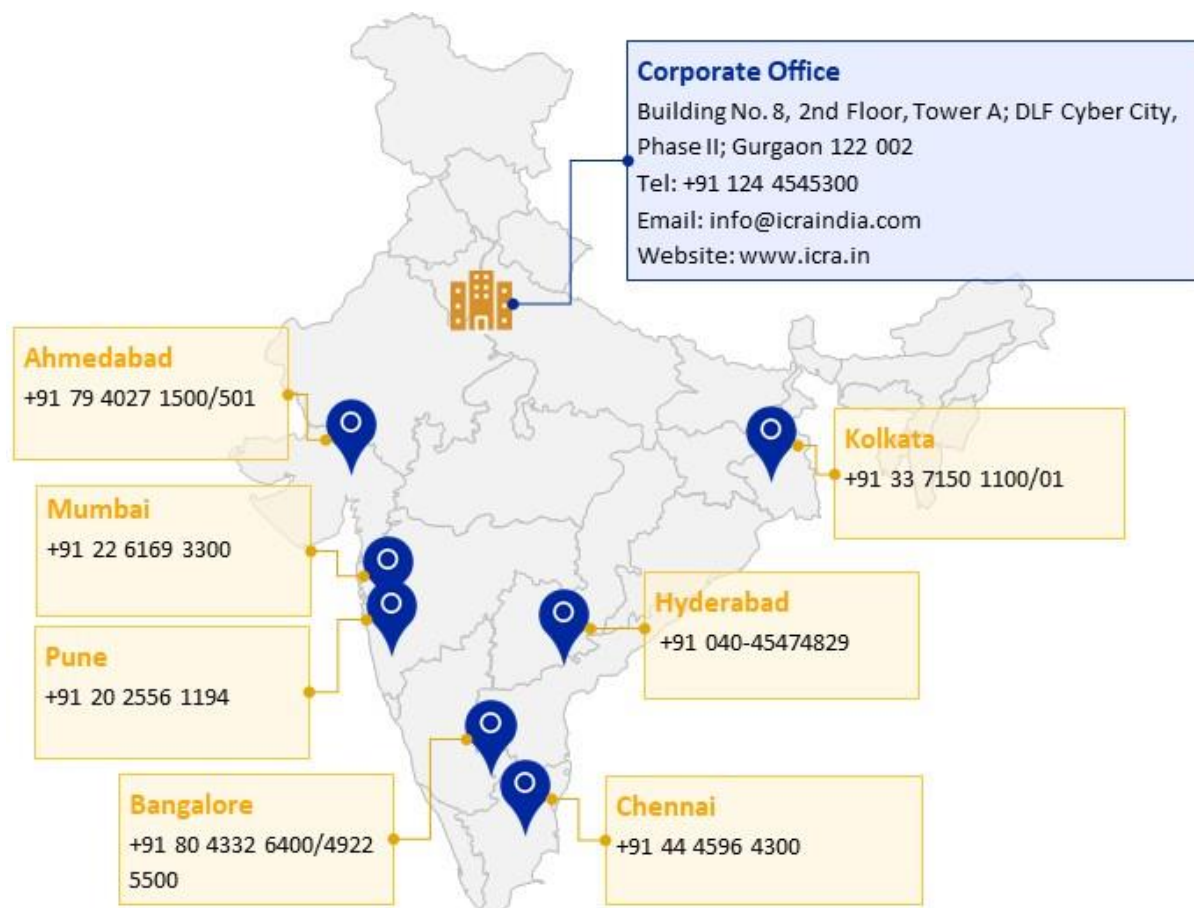


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