August 06, 2024

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	10,000.0	25,000.0	[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	**12,000.0**	**27,000.0**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in the strong parentage of Axis Securities Limited (ASL), as it is a subsidiary of Axis Bank Limited (Axis Bank[1]), its 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, operational and financial 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 noted the material increase in the company's debt-funded margin trade funding (MTF) book. This, coupled with higher 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 3.1 times as on June 30, 2024 from 1.4 times as of March 31, 2023 despite the recently concluded rights issue, which led to a rise in the net worth to Rs. 1,722 crore as of June 30, 2024 from Rs. 1,350 crore as of March 31, 2024. ICRA notes that incremental business growth will primarily be supported by 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, the intense competition in the retail broking space, and the risks associated with capital market related businesses given the inherent volatility, high dependence on technology and evolving regulatory environment. Going forward, ASL's ability to continue ramping up the broking revenues and sustaining the lending spreads, 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, the company 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. Moreover, Axis Bank's Chief Risk Officer is an invitee to the Risk Committee of the company's board. ASL also enjoys financial flexibility owing to its parentage. The strong parentage and shared brand name support ICRA's expectation that ASL will receive timely and adequate financial and operational support from Axis Bank, if

[1] *Rated ICRA]AAA (Stable) for infrastructure bonds/debentures and [ICRA]A1+ for certificates of deposit*

needed. Given the growing capital requirements to fund the sharp growth in the MTF book, the bank participated in ASL's rights issue In Q1 FY2025, infusing Rs. 250 crore.

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. ASL has a pan-India presence with 36 branches and 378 franchises across 21 states as of March 31, 2024. The company's focus on the high-yielding cash segment, along with the increase in the leverage positions in this segment through the MTF facility, has led to a steady expansion of the retail market share of its cash volumes to 1.27% in FY2024 from 1.05% in FY2023 and 0.94% in FY2022. ASL's cash average daily turnover (ADTO) increased to Rs. 1,104 crore in FY2024, up 63% from the average during FY2020-2024.

Additionally, ASL witnessed a healthy increase in futures & options (F&O) volumes in the last few years amid the growing popularity of options; nonetheless, its market share in the F&O segment remains modest. Retail broking income from the F&O segment, which contributes ~11% to the Group's net operating income (NOI), is relatively vulnerable to regulatory risks in light of the evolving regulations and the operating environment. Further, with the revision in the eligibility criteria for retail participation in currency derivatives, broking income from the currency segment (3% of NOI in FY2024) will be impacted.

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, it reported its best-ever performance in FY2024 with a 50% YoY growth in the net profit to ~Rs. 301 crore (Rs. 201 crore), profit after tax (PAT)/NOI of 35% (33% in FY2023) and return on equity of 25% (21% in FY2023). The performance remains strong in the current fiscal. With rising brokerage income and net interest income (NII) from MTF, ASL reported a net profit of Rs. 122 crore (up 16% sequentially and 183% YoY) and RoE of 32% (22% in Q1 FY2024) in Q1 FY2025.

ASL's capital needs are mainly for meeting the margin requirements at the bourses and for the MTF business. While it historically had low borrowings, the same 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, supported by the capital infusion of Rs. 250 crore and accruals from operations. The net worth stood at Rs. 1,722 crore while the gearing was 3.1 times as of June 30, 2024. The gearing has, however, increased from 1.4 times as of March 31, 2023. In this regard, incremental business growth will primarily be supported by borrowings; thus, a further increase in the gearing cannot be ruled out. Nevertheless, ICRA notes that ASL's LC Gupta net worth[2] stood at Rs. 1,400 crore as of June 30, 2024 (compared to reported net worth of Rs. 1,722 crore). Hence, the borrowings for funding the MTF book[3] cannot exceed ~Rs. 7,000 crore. Overall, given the expectation of internal accruals and MTF book growth, ICRA expects that the reported gearing (Total debt/Tangible net worth) will not exceed 4.5 times over the near term. While ASL has a track record of dividend payouts, it has not paid dividends in the past three years to plough back profits for scaling up the broking and MTF businesses.

Credit challenges

Exposed to risks inherent in capital market related businesses as well as 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. 5,151 crore, as on June 30, 2024, up 3.4 times from the March 2023 level. Going forward, its ability to maintain adequate asset quality and capitalisation while ramping up the lending book would remain a monitorable.

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[2] *LC Gupta net worth: Reported net worth less (fixed assets, unlisted securities, doubtful assets, prepaid expenses/losses, intangible assets and 30% of marketable securities)*

[3] *Maximum borrowings permitted for MTF can be up to 5 times of the LC Gupta net worth*

Elevated competition, high dependence on technology, and evolving regulatory environment – Securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputation risk. In this regard, it is noted that ASL encountered five technical glitches[4] in FY2024. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience. The sector also remains characterised by intense competition with susceptibility to the entry of new players. ASL has ceded market share to competition with the share of active National Stock Exchange (NSE) clients shrinking to 0.9% as of March 31, 2024, from 2.5% as of March 31, 2020. While the company witnessed some expansion in its active client base in FY2024 after the decline in FY2023, it remains modest (3.87 lakh as of March 2024 compared to 3.34 lakh as of March 2023 and 4.22 lakh as of March 2021).

Given the highly regulated nature of the industry, brokerage houses remain exposed to regulatory risk. Their ability to ensure compliance with the evolving regulatory landscape remains crucial. While the regulatory changes in the preceding years necessitated higher working capital requirements, recent changes, such as uniform charges to be levied by market infrastructure institutions, are likely to impact the profitability of brokerage houses, especially discount brokers (though the impact on ASL is likely to be less than 1% of its profit before tax; PBT). This, along with the increase in securities transaction tax on F&O, poses a risk to capital market volumes and hence the revenues and profitability of industry participants. Nonetheless, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term. Still, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

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 46% and 80% (basis month-end data) during January 2024 to June 2024, with the average cash margin placed on exchanges (including client funds) aggregating Rs. 2,545 crore during this period. As of June 30, 2024, ASL had total outstanding borrowings of ~Rs. 5,373 crore with 82% due for repayment within three months while it had an unencumbered cash and bank balance of Rs. 101 crore and drawable but unutilised lines of Rs. 1,034 crore. Additionally, its short-term loan book, which can be liquidated at short notice to generate liquidity if required, stood at ~Rs. 5,168 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
Parent/Group support	ASL is a subsidiary of Axis Bank. The strong parentage and shared brand name strengthen ICRA's expectation that ASL will receive timely and adequate operational and financial support from Axis Bank, if needed. The company also enjoys significant financial flexibility as it is 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

[4] *Interruptions impacting trading for more than five minutes*

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, loan 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 March 31, 2024, it was catering to 3.87 lakh active NSE clients through a network of 36 branches and 378 franchises.

Key financial indicators (audited)

Axis Securities Limited	FY2023	FY2024
Net operating income	600.0	862.5
Profit after tax excluding OCI	200.9	301.2
Net worth	1,024.8	1,349.7
Total assets	3,198.9	7,297.5
Gearing (times)	1.4	3.2
Return on average net worth	21.5%	25.4%

Source: Company, ICRA Research; OCI – Other comprehensive income; 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

S. No.	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	
				Aug 06, 2024	Mar 27, 2024	Nov 30, 2023	Dec 02, 2022	Dec 09, 2021	Jul 19, 2021
1	**Non-fund based bank lines**	Short term	-	-	-	-	-	**[ICRA]A1+**	**[ICRA]A1+**
2	**CP programme**	Short term	25,000.0	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3	**Fund-based bank lines**	Long term	-	-	-	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
4	**Fund-based/Non-fund based bank lines – Others**	Long term/ Short term	1,800.0	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	-
5	**NCD programme**	Long term	200.0^	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**

^ Yet to be availed/issued; NCD – Non-convertible debenture

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	19,625.00	[ICRA]A1+
INE110O14DK6	Commercial paper	Jun 20, 2024	7.81%	Sep 19, 2024	200.00	[ICRA]A1+
INE110O14BV7	Commercial paper	Jan 29, 2024	8.74%	Jan 28, 2025	200.00	[ICRA]A1+
INE110O14CE1	Commercial paper	Feb 28, 2024	8.48%	Feb 27, 2025	200.00	[ICRA]A1+
INE110O14CF8	Commercial paper	Mar 01, 2024	8.48%	Feb 28, 2025	200.00	[ICRA]A1+
INE110O14CP7	Commercial paper	Apr 18, 2024	7.62%	Jul 18, 2024	200.00	[ICRA]A1+
INE110O14CQ5	Commercial paper	Apr 19, 2024	7.62%	Jul 19, 2024	200.00	[ICRA]A1+
INE110O14CR3	Commercial paper	Apr 23, 2024	7.95%	Feb 20, 2025	150.00	[ICRA]A1+
INE110O14CS1	Commercial paper	Apr 24, 2024	7.67%	Jul 24, 2024	100.00	[ICRA]A1+
INE110O14CT9	Commercial paper	Apr 30, 2024	7.97%	Sep 13, 2024	200.00	[ICRA]A1+
INE110O14CU7	Commercial paper	May 08, 2024	8.05%	Mar 10, 2025	250.00	[ICRA]A1+
INE110O14CV5	Commercial paper	May 10, 2024	7.94%	Nov 06, 2024	25.00	[ICRA]A1+
INE110O14CW3	Commercial paper	May 10, 2024	8.00%	Aug 09, 2024	50.00	[ICRA]A1+
INE110O14CX1	Commercial paper	May 13, 2024	8.00%	Aug 12, 2024	300.00	[ICRA]A1+
INE110O14CY9	Commercial paper	May 14, 2024	8.00%	Aug 13, 2024	200.00	[ICRA]A1+
INE110O14CZ6	Commercial paper	May 16, 2024	7.99%	Aug 14, 2024	100.00	[ICRA]A1+
INE110O14CZ6	Commercial paper	May 15, 2024	7.99%	Aug 14, 2024	400.00	[ICRA]A1+
INE110O14DA7	Commercial paper	May 24, 2024	7.85%	Aug 23, 2024	550.00	[ICRA]A1+
INE110O14DB5	Commercial paper	May 27, 2024	7.83%	Aug 26, 2024	25.00	[ICRA]A1+
INE110O14DC3	Commercial paper	May 28, 2024	7.85%	Aug 27, 2024	300.00	[ICRA]A1+
INE110O14DD1	Commercial paper	Jun 04, 2024	7.85%	Sep 03, 2024	50.00	[ICRA]A1+
INE110O14DE9	Commercial paper	Jun 04, 2024	7.85%	Aug 30, 2024	150.00	[ICRA]A1+
INE110O14DF6	Commercial paper	Jun 07, 2024	7.82%	Sep 06, 2024	300.00	[ICRA]A1+
INE110O14DG4	Commercial paper	Jun 11, 2024	7.87%	Sep 10, 2024	525.00	[ICRA]A1+
INE110O14DH2	Commercial paper	Jun 12, 2024	7.87%	Sep 11, 2024	200.00	[ICRA]A1+
INE110O14DI0	Commercial paper	Jun 18, 2024	7.83%	Sep 17, 2024	200.00	[ICRA]A1+
INE110O14DJ8	Commercial paper	Jun 19, 2024	7.81%	Sep 18, 2024	100.00	[ICRA]A1+

Source: Company; Note: ISIN details as on June 30, 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

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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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