February 03, 2025

Axis Securities Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Commercial paper	25,000.0	25,000.0	[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	27,000.0	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]). 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. ASL's gearing increased to 3.2 times as on March 31, 2024 from 1.4 times as on March 31, 2023. Although it moderated marginally after the conclusion of the rights issue in the current fiscal, it remains elevated in relation to the historical levels at 2.6 times as on December 31, 2024. The rights issue, aggregating Rs. 250 crore, and the strong profitability supported the sizeable increase in the net worth to Rs. 1,979 crore as on December 31, 2024 from Rs. 1,350 crore as on March 31, 2024. ICRA notes that a further increase in the gearing cannot be ruled out as incremental business growth will primarily be supported by borrowings.

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 the evolving regulatory environment. Going forward, ASL's ability to continue ramping up the broking revenues and sustain the lending spreads, while ensuring adequate asset quality, would be imperative for maintaining profitability.

Key rating drivers and their description

Credit strengths

Strong parentage in the form of Axis Bank – ASL is a wholly-owned subsidiary of Axis Bank. 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. Further, the bank has three 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 needed. Given the

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

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. As on September 30, 2024, it had a pan-India presence with 37 branches and 412 franchises. The company's focus on the high-yielding cash segment, along with the increase in the leverage position in this segment through the MTF facility, has led to a steady expansion of its market share in the retail cash segment to 1.32% in H1 FY2025 from 1.27% in FY2024, 1.05% in FY2023 and 0.94% in FY2022. ASL's average daily turnover (ADTO) in the cash segment increased to Rs. 1,737 crore in H1 FY2025, up 57% from FY2024.

Additionally, ASL witnessed a healthy increase in futures & options (F&O) volumes in the last few years amid the growing popularity of options, though its market share in this segment remains modest. Retail broking income from the F&O segment, which contributes 10-15% to the company's net operating income (NOI), is relatively vulnerable to regulatory risks in light of the evolving regulations and the operating environment. In this regard, the implementation of regulatory measures, to discourage speculative trading by retail investors near the expiries, is estimated to have put brakes from November 20, 2024 (dip of 40% in recent weeks compared to the peak during June-August 2024). Further, with the revision in the eligibility criteria for retail participation in currency derivatives, broking income from the currency segment (less than 5%[2] of NOI in FY2024) was impacted in the recent past.

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 tail winds. With improving scale and resulting efficiencies, it reported its best-ever performance in 9M FY2025 with a net profit of ~Rs. 369 crore (Rs. 301 crore in FY2024; average of Rs. 224 crore during FY2021-FY2024), profit after tax (PAT)/NOI of 39.8% (35.3% in FY2024; average of 37.4% during FY2021-FY2024) and return on equity of 29.5%[3] (25.4% in FY2024; average of 30.7% during FY2021-FY2024).

ASL's capital needs are mainly for meeting the margin requirements in the broking business and for the MTF business. While dependence on borrowings was low earlier, 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 strong accruals from operations. The net worth stood at Rs. 1,979 crore while the gearing was 2.6 times as on December 31, 2024. The gearing has, however, increased from 1.4 times as on March 31, 2023. In this regard, a further increase in the gearing cannot be ruled out as incremental business growth will primarily be supported by borrowings. Nevertheless, ICRA notes that ASL's LC Gupta net worth[4] stood at Rs. 1,517 crore as on September 30, 2024 (compared to reported net worth of Rs. 1,913 crore). Hence, the borrowings for funding the MTF book[5] cannot exceed ~Rs. 7,585 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 since FY2021 to plough back profits for scaling up the broking and MTF businesses.

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[2] *The share declined to 0.04% in H1 FY2025 from 2.7% in FY2024*

[3] *While PAT/NOI in H1 FY2025 was the highest-ever reported, the return on equity (RoE) was lower than the peak RoE of 41.2% in FY2021 on account of fair value gains from strategic investments in Max Life routed through other comprehensive income and equity infusion of Rs. 250 crore in H1 FY2025, resulting in material growth in net worth*

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

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

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. 5,054 crore as on December 31, 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 imperative.

Elevated competition, high dependence on technology, and evolving regulatory environment – 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 exchange charges, 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). Further, the regulator has implemented certain measures to curb the exuberance in the F&O segment. These include the rationalisation of weekly index derivatives, increase in their contract size, upfront collection of option premium from buyers, increase in margins on expiry days, removal of calendar spread benefits on expiry days, and enhanced monitoring of position limits. The measures are being introduced in a phased manner during November 2024 to April 2025. The combined effect of the aforesaid measures and the recent hike in the securities transaction tax in the F&O segment pose a risk to capital market volumes and, hence, the revenues and profitability of industry participants. However, the impact is expected to be more prominent for discount brokers while traditional brokers, like ASL, are likely to be less affected.

The sector also remains characterised by intense competition and susceptibility to the entry of new players. In this regard, heightened competition in the equity broking segment and the growing popularity of discount brokerage houses have led to pricing pressure in recent years. However, 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. Nevertheless, the possibility of pressure on profitability, especially during downturns, cannot be ruled out. Moreover, securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputational risk. In this regard, it is noted that ASL encountered a technical glitch[6] in 8M FY2025. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience.

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 48% and 80% (basis month-end data) during April 2024 to November 2024, with the average cash margin placed on exchanges (including client funds) aggregating Rs. 2,834 crore during this period. As on November 30, 2024, ASL had total outstanding borrowings of ~Rs. 4,939 crore due for repayment within four months (till March 2025) while it had drawable but unutilised lines of Rs. 894 crore (though unencumbered cash and bank balance was negligible). Additionally, its MTF book and cash component margin book, which can be liquidated at short notice to generate liquidity if required, stood at Rs. 4,773 crore and Rs. 403 crore, respectively. 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.

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

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 could lead to pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & allied services
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 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

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 it with resource management services. 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 also a depository participant (DP) of Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL). As on November 30, 2024, it was catering to 4.23 lakh active NSE clients and had a network of 37 branches and 412 franchises as on September 30, 2024.

Key financial indicators (audited)

Axis Securities Limited	FY2023	FY2024	9M FY2025
Net operating income	593	854	927
Profit after tax excluding OCI	201	301	369
Net worth	1,025	1,350	1,979
Total assets	3,199	7,298	8,926
Gearing (times)	1.4	3.2	2.6
Return on average net worth	21.5%	25.4%	29.5%

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) Type	Amount rated (Rs. crore)	Date & rating in FY2025 Feb 03, 2025	Date & rating in FY2025 Aug 06, 2024	Chronology of rating history for the past 3 years – Date & rating in FY2024 Mar 27, 2024	Date & rating in FY2024 Nov 30, 2023	Date & rating in FY2023 Dec 02, 2022	Date & rating in FY2022 Dec 09, 2021	Date & rating in FY2022 Jul 19, 2021
1	**CP programme**	Short term	25,000.0	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	**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+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	-
3	**NCD programme**	Long term	200.0^	**[ICRA]AAA (Stable)**	**[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	20,250.0	[ICRA]A1+
INE110O14EP3	Commercial paper	Dec-20-2024	7.65%	Mar-21-2025	200.0	[ICRA]A1+
INE110O14EO6	Commercial paper	Dec-19-2024	7.65%	Mar-20-2025	300.0	[ICRA]A1+
INE110O14EN8	Commercial paper	Dec-12-2024	7.43%	Mar-13-2025	25.0	[ICRA]A1+
INE110O14EM0	Commercial paper	Dec-11-2024	7.43%	Mar-12-2025	200.0	[ICRA]A1+
INE110O14EL2	Commercial paper	Dec-10-2024	7.45%	Mar-11-2025	300.0	[ICRA]A1+
INE110O14CU7	Commercial paper	Dec-09-2024	7.45%	Mar-10-2025	350.0	[ICRA]A1+
INE110O14EK4	Commercial paper	Dec-05-2024	7.50%	Mar-06-2025	350.0	[ICRA]A1+
INE110O14EJ6	Commercial paper	Dec-04-2024	7.53%	Mar-05-2025	250.0	[ICRA]A1+
INE110O14DL4	Commercial paper	Nov-25-2024	7.52%	Feb-24-2025	200.0	[ICRA]A1+
INE110O14EI8	Commercial paper	Nov-22-2024	7.51%	Feb-21-2025	50.0	[ICRA]A1+
INE110O14CR3	Commercial paper	Nov-21-2024	7.51%	Feb-20-2025	175.0	[ICRA]A1+
INE110O14EH0	Commercial paper	Nov-18-2024	7.53%	Feb-17-2025	200.0	[ICRA]A1+
INE110O14EG2	Commercial paper	Nov-13-2024	7.53%	Feb-12-2025	250.0	[ICRA]A1+
INE110O14EF4	Commercial paper	Nov-12-2024	7.53%	Feb-11-2025	300.0	[ICRA]A1+
INE110O14EE7	Commercial paper	Oct-25-2024	7.60%	Jan-24-2025	200.0	[ICRA]A1+
INE110O14DW1	Commercial paper	Sep-04-2024	7.90%	Mar-03-2025	150.0	[ICRA]A1+
INE110O14DL4	Commercial paper	Aug-28-2024	7.86%	Feb-24-2025	100.0	[ICRA]A1+
INE110O14DL4	Commercial paper	Jul-15-2024	7.95%	Feb-24-2025	150.0	[ICRA]A1+
INE110O14CU7	Commercial paper	May-08-2024	8.05%	Mar-10-2025	250.0	[ICRA]A1+
INE110O14CR3	Commercial paper	Apr-23-2024	7.95%	Feb-20-2025	150.0	[ICRA]A1+
INE110O14CF8	Commercial paper	Mar-01-2024	8.48%	Feb-28-2025	200.0	[ICRA]A1+
INE110O14CE1	Commercial paper	Feb-28-2024	8.48%	Feb-27-2025	200.0	[ICRA]A1+
INE110O14BV7	Commercial paper	Jan-29-2024	8.74%	Jan-28-2025	200.0	[ICRA]A1+

Source: Company; Note: ISIN details as on December 31, 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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