

September 10, 2020

Axis Securities Limited: Ratings assigned/reaffirmed; rated limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based bank facilities	50.00	115.00	[ICRA]A1+; assigned/reaffirmed
Short-term non-fund based bank facilities	200.00	410.00	[ICRA]A1+; assigned/ reaffirmed
Long-term/short-term fund-based/non-fund based bank facilities	-	275.00	[ICRA]AAA (Stable) / [ICRA]A1+; assigned
Commercial paper programme	100.00	1,000.00	[ICRA]A1+; assigned/reaffirmed
Non-convertible debentures	-	200.00	[ICRA]AAA (Stable); assigned
Total	350.00	2,000.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the strong parentage of Axis Securities Limited (ASL), which is a subsidiary of Axis Bank Limited (Axis Bank, rated [ICRA]AAA (Stable)/[ICRA]A1+), the shared brand name and the strong linkages with the parent, which supports ASL's retail broking franchise. The ratings also consider ASL's position in retail broking, its comfortable capitalisation for the current scale of operations and its strong liquidity position (nil gearing as on March 31, 2020; increased to 0.06 times as on June 30, 2020) with modest debt funding requirements. While assigning the ratings, ICRA has factored in the company's plans to grow its e-margin (margin trading facility; MTF) book in the near term and to foray into Employee Stock Option Plan financing. As both segments are expected to be predominantly debt funded, ASL's gearing is expected to increase in the near term.

While assigning the ratings, ICRA has taken note of the intense competition in the broking industry and the resultant pressure on yields. ASL's profitability was moderate in FY2020 (RoE of 8.97%), constrained by a one-time expense related to the transfer of the depository participant (DP) business to ASL from Axis Bank. In Q1 FY2021, the overall broking industry reported significant growth in trading volumes specially in the cash segment and ASL also reported a strong growth in its cash segment volumes. In Q1 FY2021, ASL gained market share in the cash segment and reported ~88% YoY growth in broking income. This, coupled with depository income (depository business was transferred to ASL in August 2019 from Axis Bank), resulted in a YoY growth of ~433% in the profit after tax (PAT) to ~Rs. 34 crore in Q1 FY2021 (RoA of 19.72% and RoE of 41%).

However, ICRA expects that the momentum in trading volumes, as reported in Q1 FY2021, might not continue for the rest of the financial year and the overall profitability for FY2021 is expected to moderate compared to the performance in Q1 FY2021. ASL's profitability is also expected to be supported by the growth in the net interest income from the MTF business. The company's ability to scale up the broking volumes, while maintaining adequate profitability, and incubate related businesses would remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage with well-demonstrated operational and financial support from the parent – Axis Bank (along with its nominees) holds a 100% stake in ASL. 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. Given its position as a bank brokerage house, ASL draws the advantage of access to Axis Bank's retail clientele.

Established presence in retail broking space with focus on digital broking – ASL is a retail-focused broking player supported by its linkages with the parent, given its position as a bank brokerage house and the shared brand name. In FY2020, ASL's total equity broking volumes increased by 58% to Rs. 31.95 lakh crore. In Q1 FY2021, the total equity broking volumes reduced by 4% (YoY), though ASL registered a strong growth in the cash segment. The cash segment volumes increased by 98% (YoY) vis-à-vis the average industry growth rate of 49% during the same period. With the strong growth in the cash segment, the mix between cash and futures and options (F&O) volumes improved to 5:95 from 3:97 in FY2020. In Q1 FY2021, ASL had a market share of 0.70%. As on June 30, 2020, the company had its own network of 22 standalone branches to serve its customer base of ~2 million. ASL has been increasingly focusing on digital broking with online broking volumes contributing ~99% to the total broking turnover in FY2020.

Comfortable capital structure and strong liquidity position – ASL's capital needs are mainly towards meeting the margin requirements at the bourses and for the MTF business. As on June 30, 2020, ASL remained adequately capitalised with a net worth of Rs. 350.11 crore. Its broking business has a comfortable liquidity profile with low utilisation of the margins placed with the stock exchanges (generally 50-60%) and ready access to client's assets (shares and collateral) that can be monetised without a significant lag. Historically, the company had low levels of debt and its reported gearing was nil as on March 31, 2019 and March 31, 2020. As on June 30, 2020, ASL had outstanding debt in the form of an overdraft of Rs. 22 crore, resulting in a gearing of 0.06 times. As on June 30, 2020, the company had a comfortable liquidity position with a cash balance of Rs. 122 crore in a remittance account and unutilised fund-based bank lines of ~Rs. 60 crore. With the planned growth in the MTF book, the borrowings are expected to increase in the near to medium term. However, the overall gearing would remain within comfortable levels.

Credit challenges

Intense competition in retail broking sector – With increasing competition in equity broking and the advent of discount brokerage houses, the average yields for broking players have been under pressure. However, with enhanced focus on adding new clients, especially in the cash segment, and the discontinuation of discount broking products, the yields are expected to improve in FY2021.

Inherent volatility in broking segment – With the company's broking revenues being linked to the inherently volatile capital markets, its revenue profile and profitability remain vulnerable to market performance. ICRA notes that any downturn in the capital markets may impact ASL's financial performance.

Liquidity position: Strong

ASL primarily requires funds to meet the margin requirements at the bourses, which are met through bank guarantees and own funds. The funding requirement for the MTF business is met through commercial papers (CPs) and overdraft facilities from banks against fixed deposits and book debts. As on June 30, 2020, ASL had outstanding debt (in the form of overdraft) of Rs. 22.52 crore and a cash balance of Rs. 122 crore in a remittance account. Besides, the company had

unutilised fund-based bank lines of ~Rs. 60 crore as on June 30, 2020 and ready access to client's assets (shares and collateral) that can be monetised without a significant lag.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The ratings could be revised in case of a revision in the rating 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	ICRA's Credit Rating Methodology for Brokerage Houses
Parent/Group Support	Parent – Axis Bank Limited ICRA factors in the expected support from Axis Bank, given the demonstrated track record of financial and operational support from the parent. ASL also has access to Axis Bank's branch network and shared brand name.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Axis Securities Limited (ASL) was incorporated in 2006 and is a wholly-owned subsidiary of Axis Bank. ASL is engaged in retail equity broking, related lending and distribution of financial products. 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. ASL 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 DP of Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL). In FY2020, Axis Bank's DP business was transferred to ASL.

ASL's net worth stood at Rs. 350.11 crore as on June 30, 2020 compared to Rs. 315.82 crore as on March 31, 2020 and Rs. 329.97 crore as on March 31, 2019. The company reported a profit after tax (PAT) of Rs. 34.13 crore in Q1 FY2021 on a net operating income (NOI) of Rs. 74.77 crore compared to Rs. 24.16 crore and Rs. 204.25 crore, respectively, in FY2020 and Rs. 29.27 crore and Rs. 195.39 crore, respectively, in FY2019 (excluding the discontinued business).

Key financial indicators- for continuing business

Parameter	FY2019	FY2020	Q1 FY2021^
Net Interest Income	23.03	26.81	7.36
Brokerage Income (net)	159.70	138.88	54.12
Depository Income	-	23.53	10.95
Other Fee Income	12.69	13.03	2.25
Net Operating Income (NOI)	195.39	204.25	74.77
Total Operating Expense	148.74	128.46	37.70
Exceptional Expenses	-	28.45	-
Profit before Tax (PBT)	45.51	46.44	36.00
Profit after Tax (PAT; reported)	29.27	24.16	34.13
Net Worth	329.97	315.82	350.11
Cost Income Ratio	76.12%	62.89%*	50.42%
Return on Average Net Worth	9.85%	7.48%	41%
Gearing (times)	0.00	0.00	0.06

Source: Company; All ratio as per ICRA calculations; Amount in Rs. crore; *Excluding exceptional expense; ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Rating (FY2021)				Rating History for the Past 3 Years		
			Amount Rated	Amount Outstanding*	Rating		FY2020 17-May-19	FY2019 31-Oct-18	FY2018 28-Sep-17
					10-Sept-20	29-Jun-20			
1	Commercial paper programme	Short Term	1,000.00	25.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Short-term fund-based bank facilities	Short Term	115.00	39.47	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-
3	Short-term non-fund based bank facilities	Short Term	410.00	249.73	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-
4	Long-term / short-term fund-based/non-fund based bank facilities	Long Term / Short Term	275.00	-	[ICRA]AAA (Stable) / [ICRA]A1+	-	-	-	-
5	Non-convertible debenture programme	Long Term	200.00	-	[ICRA]AAA (Stable)	-	-	-	-

Amount in Rs. crore; *As on July 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper programme	NA	NA	7-360 days	1,000	[ICRA]A1+
NA	Short-term fund-based bank facilities	Sep-17	NA	NA	115	[ICRA]A1+
NA	Short-term non-fund based bank facilities	NA	NA	NA	410	[ICRA]A1+
NA	Long-term/short-term fund-based/non-fund facilities bank facilities	NA	NA	NA	275	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Non-convertible Debentures	NA	NA	NA	200	[ICRA]AAA (Stable)

Source: Axis Securities Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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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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