

September 28, 2017

## Axis Securities Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	100.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 100 crore commercial paper programme of Axis Securities Limited (ASL)<sup>1</sup>.

### Rationale

The rating factors in the company's strong parentage by virtue of being a subsidiary of Axis Bank Limited [Axis Bank, rated [ICRA]AAA (stable)] and the company's strong linkages with the parent including a shared brand name, which strengthen ICRA's assumption that ASL will receive timely and adequate financial and operational support from the parent, if required. The rating also factors in ASL's importance to the parent by virtue of being a captive sourcing and resource management provider. The rating also takes into account ASL's diverse revenue profile, adequate capitalisation for its current scale of operations and comfortable liquidity position with nil gearing as on March 31, 2017. ICRA nevertheless takes note of the inherent volatility and competitive intensity in the equity broking business, and ASL's low, albeit improving, market share in the space.

### Key rating drivers

#### Credit strengths

- **Strong parentage of Axis Bank and strong operational and financial support from the parent** - Axis Bank holds ~100% stake in the company. The strong parentage and the shared brand name strengthen ICRA's assumption that ASL will receive timely and adequate financial and operational support from Axis Bank, should there be a requirement. The company has strong operational linkages with Axis Bank, including customer-sourcing and cross-selling support. The company benefits from the wide geographical reach and the large client base of Axis Bank for sourcing of broking clients.
- **Importance of ASL for sourcing retail assets for the bank** - ASL acts as the in-house sourcing and resource management service provider for Axis Bank. ASL is primarily engaged in the marketing of retail financial products (like loans and credit cards) and providing resource management services (back-end support for underwriting and collections) for its parent and distribution of insurance, and mutual funds products of third parties. The company sources clients for Axis Bank for its various retail products. During FY2017, ASL generated a retail business of Rs. 27,430 crore for Axis Bank, which accounted for ~65% of the bank's retail disbursements during the year. The fee income is the primary revenue driver for ASL; over the last few years, fee based income accounted for around 75-80% its revenues.
- **Moderate presence in retail broking space** - ASL is a retail broking player with a focus on domestic and high net worth clients. Supported by the upswing in capital markets, ASL's total equity broking volumes increased by 82% during FY2017, with growth in both the cash and futures and options (F&O) segments. The company outperformed the industry growth of 35%, resulting in its market share improving to 0.31% in FY2017 from 0.23% in FY2016. As a retail-oriented brokerage

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

entity, the company benefits from its access to Axis Bank's retail clientele and branch network. The company also services its ~1.5 million customer base through its own network of 84 standalone branches and 10 franchisees as on June 30, 2017.

- **Diverse revenue streams varying from sourcing, resource management and brokerage** – The company has a diverse revenue profile, with limited dependence on brokerage income (19% of total income in FY2017), which is volatile in nature. The company earns a large proportion of its income by way of fee income (75-80% of total income) for sourcing of loans and resource management for Axis Bank. In FY2017, the fee income grew by ~35% to Rs. 584.73 crore (78% of total income) from Rs. 431.55 crore in FY2016 (77% of total income), largely on account of an increase in business volumes driven by Axis Bank's strong retail portfolio growth.
- **Strong capitalisation and comfortable liquidity position** - ASL's capital needs are mainly towards meeting the margin requirements at the bourses. ASL's broking business has a comfortable liquidity profile with low utilisation of the margins placed with stock exchanges (generally ~60%), large unutilised bank lines available with the company and ready access to client's assets (backed by share collateral) that can be monetised without a significant lag. ASL's reported gearing stood at nil as on June 30, 2017. ASL remains adequately capitalised with a net worth of Rs. 238.98 crore as on June 30, 2017.

#### **Credit weaknesses**

- **High operating expenses keeps the cost to income ratio elevated-** ASL's operating expenses remain elevated on account of the nature of its business and large employee base of ~28,000. The company's employee expenses increased by 36% to Rs. 595.15 crore in FY2017, with an increase in its sales force. The attrition in ASL's sourcing and resource management business is also high. The company's total operating expenses increased by 34% in FY2017 to Rs. 674.03 crore from Rs. 502.78 crore in FY2016. As a result, the company's cost to income ratio remained high at ~90% in FY2017.
- **High intensity of competition in capital markets** – With increasing competition in equity broking and the advent of discount brokerage houses, average yields for broking players have been under downward pressure. However, the low level of equity market penetration in the country (number of demat accounts in India is about 2% of the country's population) indicates significant untapped potential for expansion.

#### **Analytical approach:**

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### **Links to applicable criteria**

[Rating Methodology for Brokerage Houses](#)

[ICRA's Approach for Rating Commercial Papers](#)

#### **About the company**

Incorporated in 2006, ASL is primarily engaged in equity broking, distribution and servicing of a wide range of financial products (housing loans, auto loans, loans against property, credit card, etc.) for Axis Bank and also providing resource management services to Axis Bank. ASL plays an important role for Axis Bank in the sourcing of retail assets. ASL's net worth stood at Rs. 238.98 crore as on June 30, 2017 as compared with Rs. 227.34 crore as on March 31, 2017. The company reported a PAT of Rs. 51.50 crore in FY2017 as compared with Rs. 35.68 crore in FY2016.

**Key Financial Indicators (Audited)**

	<b>FY2016</b>	<b>FY2017</b>
Brokerage Income (net)	102.75	143.22
Fee Income (other than broking)	431.55	584.73
Net Interest Income	9.83	7.97
Other Non-Interest Income	13.29	17.01
Total Income	557.43	752.93
Total Operating Expenses	502.78	674.03
Profit Before Tax	54.87	78.64
Profit After Tax	35.68	51.50
Net Worth	197.15	227.34
Cost to Income Ratio	90.20%	89.52%
Return on Net Worth	18.10%	22.65%

Source: Company data and ICRA research; Amount in Rs. crore  
All ratios are as per ICRA calculations

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:**

**Table:**

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	September 2017	FY2017	FY2016	FY2015
1	Commercial Paper Programme	Short Term	100	[ICRA]A1+	[ICRA]A1+	-	-

**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](http://www.icra.in)

**Annexure-1****Instrument Details**

<b>ISIN No.</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Rated Amount (Rs. crore)</b>	<b>Current Rating and Outlook</b>
NA	Commercial Paper Programme	-	-	7-365 days	100.00	[ICRA]A1+

Source: the company

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