AXIS/CO/CS/060/2021-22

12th May 2021

The Chief Manager
(Listing & Compliance)
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, "G" Block
Bandra-Kurla Complex
Bandra (E),
Mumbai – 400 051

The Senior General Manager
(Listing)
BSE Limited
1st Floor, New Trading Ring, Rotunda Building
P. J. Towers,
Dalal Street
Fort, Mumbai – 400 001

Dear Sir(s),

SUB.: CREDIT RATING UPDATE

REF.: REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015 ("LISTING REGULATIONS").

This is to inform you that credit rating agency India Ratings and Research (Ind-Ra) has affirmed Axis Bank Limited's Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. Also, the rating agency has affirmed its 'IND AAA/ IND AA+/ Stable' ratings on the debt instruments of Axis Bank Limited.

The rating letter of India Ratings and Research (Ind-Ra) dated 12th May 2021, received by the Bank today is enclosed herewith.

You are requested to take note of above and arrange to bring it to the notice of all concerned.

Thanking You.

Yours sincerely,

For Axis Bank Limited

GIRISH VASUDEVAN KOLIYOTE
Digitally signed by GIRISH VASUDEVAN KOLIYOTE
Date: 2021.05.12 19:37:56 +05'30'

Girish V Koliyote
Company Secretary

Encl: As above

India Ratings & Research
A Fitch Group Company

India Ratings Affirms Axis Bank at 'IND AAA'; Outlook Stable

12

MAY 2021

By Karan Gupta

India Ratings and Research (Ind-Ra) has affirmed Axis Bank Limited's (Axis) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel-III compliant Tier 2 bonds *	-	-	-	INR100	IND AAA/Stable	Affirmed
Basel III AT1 bonds *	-	-	-	INR70	IND AA+/Stable	Affirmed

* Details in Annexure

The affirmation of Axis's Long-Term Issuer Rating factors in its large, pan-India franchise, on both asset and liability sides. It is the third-largest private sector bank with about 6% market share in terms of advances. A diverse business mix, as reflected in its well-spread out loan portfolio, with over half of it being granular retail, is also supportive of the ratings. The bank's focus on the liability side has resulted in a stable funding profile, with the current and savings account (CASA) ratio at 44.9% in 4QFY21, at median levels within its peer group. Furthermore, the bank's existing capital buffers and the ability to raise capital are factored into the ratings.

The Stable Outlook reflects Ind-Ra's expectation that even as the second wave of COVID-19 pandemic impacts economic activity, Axis' reasonable capital buffers, strong provision coverage ratio (PCR) and additional provisions (which are not included in the PCR) would provide cushion against any near-term shocks. However, successive quarters of elevated fresh slippages, resulting in high credit costs and thereby losses, resulting in a material impact to Tier-I capitalisation will be a key monitorable in the near term.

For AT1 instruments, the agency considers the discretionary component, coupon omission risk, and the write-down/conversion risk as the key parameters to arrive at the ratings. The agency recognises the unique going-concern loss-absorption features that these bonds carry and differentiates them from the bank's senior debt, factoring in an increased probability of an ultimate loss for investors in these bonds.

KEY RATING DRIVERS

High PCR & Additional Provisions Provide Comfort Amid Second-Wave of COVID-19 Pandemic: Over 4QFY20-4QFY21, Axis increased its additional provisions (not included in the PCR) to INR120.1 billion and constituted 1.7x of the net non-performing asset (NPA) as of 4QFY21. This additional provision increased from INR42 billion in 3QFY20 and it now includes COVID-19 related provisions of INR50.1 billion. In addition to creating the COVID-19 related buffers, the bank has tightened its rule-based provisioning on unsecured retail assets; provided fully for outstanding security receipts; improved provision coverage sharply for the small and medium enterprises (SME) portfolio and is holding higher than required provisions against the assets restructured under the Reserve Bank of India's one-time debt restructuring window. Further, the overall PCR improved by 333bp yoy to 72.4% in 4QFY21, with the retail book carrying a PCR of 53% (81% of the retail book is secured and 45% is towards home loans and loan against property segments), SME at 80% and corporate at 78%. The bank's net NPA-to-CET I capital for 4QFY21 stood at 7.1%.

Although declining, Axis reported gross NPAs of 3.70% in 4QFY21 (FY20: 4.86%; FY19: 5.26% FY18: 6.77%). Fresh slippages have remained elevated in FY21, with the bank using one-time debt restructuring and the Emergency Credit Line Guarantee Scheme rather modestly in comparison to the peer group. At FYE21, the total 'BB' and below rated advances book stood at INR126.8 billion with 63.9% classified under fund-based exposures constituting 1.09% of gross customer assets. The bank's focus on building a quality book continues with incremental additions in higher-rated categories, resulting in an increased share of 'A-' and above rated entities in the overall mix of the corporate and SME advances. While uncertainty still continues to prevail around the COVID-19 related challenges on asset quality, a strong PCR, along with additional provisions provides comfort.

Portfolio Remains Granular: Overall, the advances growth for Axis slowed down to 9.2% yoy in FY21 driven by COVID-19 related challenges. However, Axis continued to grow its retail portfolio, with 9.5% yoy growth in FY21 and the retail book now constitutes 53.6% of the total net advances (FY20: 53.4%; FY19: 49.7%) with multi-product diversification. A branch-led acquisition strategy with 59% of overall retail asset being sourced through branches in 4QFY21 augurs well for the bank, as it continues to build its branch presence further.

Axis' SME book had slowed down since 2QFY20 with a yoy decline against growth of over 20% yoy in the pre-FY19 period. The bank is once again looking to grow its SME segment with a 12.8% yoy growth reported in 4QFY21, which the agency believes will further add to the granularity of the overall book. Growth in the corporate advances segment remains muted (4QFY21: 7.5% yoy) with the bank focusing on improving the quality of the book and increasing the share of shorter-term loans, which could lead to better portfolio quality, but exert pressure on the segment's margins.

Liability Engine Continues to Perform: Axis' CASA ratio improved to 44.9% in 4QFY21 (4QFY20:39.6%), with CASA and retail term deposits growing at 20.5% yoy (8.3%) and 12.4% yoy (27.4%), respectively, in comparison to the overall deposit growth of 10.5% yoy. The share of retail term deposits increased to 40.3% of overall deposits in 4QFY21 (FY20: 39.6%; FY19: 36.3%). The cost of funds has improved by 110bp yoy to 4.1% (down 160bps from 1QFY20), with Axis reducing savings bank account and term deposit rates. However, concentration in deposits remains high in comparison to 'AAA' rated peers, with the top 20 depositors constituting 9.17% of the overall deposits in FY20.

Healthy Capital Buffers: Capitalisation for Axis is at healthy levels with a common equity tier-I capital of 15.40% and a total capital adequacy ratio of 19.12%. Furthermore, the bank's ability to raise equity capital from the markets is reflected well with it raising INR338 billion over FY18-FY21: INR113 billion was raised through a preferential allotment (INR87 billion raised in FY18 and INR26 billion in May 2019); INR125 billion through a qualified institutional placement in FY20 and INR100 billion through another qualified institutional placement in FY21.

The agency estimates that Axis is currently in a comfortable position to absorb elevated levels of asset quality stress. The proportion of risk weighted assets to total assets stood at 64% in FY21 (FY20:67%; FY19: 69%; FY18: 75%; FY17: 79%) and the agency believes that a further release of capital by bringing down this ratio significantly is unlikely.

Building Presence Across Financial Services Value Chain: Axis is scaling up its presence across the financial services value chain, with presence in businesses such as brokerage, asset management, life and general insurance, investment banking and payment platforms. The bank also has a non-banking financial company - Axis Finance Limited ('IND AAA'/Stable) - providing real estate financing, securities-backed lending services and other retail financial products. Overall, the bank's subsidiaries have been growing in size and scale as Axis continues to make investments in building these capabilities. The contribution of the subsidiaries to the consolidated profitability still remains constrained in comparison to comparable peers.

Liquidity Indicator – Adequate: Axis maintained a cumulative funding gap of 1.3% in the up to one-year bucket as a percentage of the total assets at end-4QFY21. Axis also maintains 22.1% of its total assets in balances with the Reserve Bank of India and in government securities, to meet its short-term funding requirements. In addition, the bank had a comfortable liquidity coverage ratio of 115% in 4QFY21, sufficiently above the regulatory requirement of 100%.

Profitability Still Continues to be Volatile: Since FY17, Axis had been reporting large provisioning requirements resulting from significant deterioration in its corporate asset quality. In FY21, alongside regular provisioning requirements, building non-NPA provision buffers along with improving quality of provisioning has led to pressure on profitability. The agency believes that while COVID-19 related pressures on asset quality could continue to pan out in FY22, the already-built provisioning buffers should lead to a lower provisioning requirement on a yoy basis in FY22. This, Ind-Ra believes should reduce volatility in the profitability and aid the bank in returning to its pre-FY17 average return on asset (ROA) range of 1.6-1.7% as it gradually reverts to below its long-term credit cost estimate of 110bp. The bank reported an average ROA of 0.7% in FY21 (FY20: 0.2%).

RATING SENSITIVITIES

The Outlook could be revised to Negative if the asset quality starts deteriorating sharply and credit costs are high on a sustained basis. The ratings could be downgraded if there is a material impact to Tier-I capitalisation levels with the common equity tier-I (CET-I) falling below 11% on a sustained basis; the net NPA-to-CET I capital rises sharply higher than comparable peer group; there is significant erosion of franchise – reduction of deposits or advances market share on a sustained basis; or the weakening of the relative competitiveness in the banking space. A weakened liquidity or funding profile may also result in a negative rating action.

COMPANY PROFILE

Axis was established by government-owned institutions in 1994 and was known as UTI Bank till August 2007. It is the third-largest private sector bank in terms of advances as well as deposits. At end-FY21, net advances for the bank stood at INR6,237 billion. The bank had a pan-India presence with a network of 4,594 domestic branches at end-FY21.

FINANCIAL SUMMARY

Particulars (INR billion)	FY21	FY20
Total assets	9,961	9,152
Total equity	1,016	849
Net income	65.8	16.3
ROA (%)	0.70	0.20
CET-I (%)	15.40	13.34
Capital adequacy ratio (%)	19.12	17.53
Source: Axis, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	14 May 2020	8 April 2019	20 February 2018
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Basel-III compliant Tier 2 bonds	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Basel III AT1 bonds	Long-term	INR70	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable

ANNEXURE

Issue Type	ISIN	Date of Issuance	Coupon rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook

Basel-III compliant Tier 2 bonds	INE238A08393	27 May 2016	8.5	27 May 2026	INR24.3	IND AAA/Stable
Basel-III compliant Tier 2 bonds	INE238A08419	23 November 2016	7.84	23 November 2026	INR18	IND AAA/Stable
Basel-III compliant Tier 2 bonds	INE238A08435	15 June 2017	7.66	15 June 2027	INR50	IND AAA/Stable
Total utilised					INR92.3	
Total unutilised					INR7.7	
Basel III AT1 bonds	INE238A08427	14 December 2016	8.75	Perpetual	INR35	IND AA+/Stable
Basel III AT1 bonds	INE238A08443	28 June 2017	8.75	Perpetual	INR35	IND AA+/Stable
Total utilised					INR70	

COMPLEXITY LEVEL OF INSTRUMENTS

Complexity Indicator	Complexity Indicator
Basel-III compliant Tier 2 bonds	Low
Basel III AT1 bonds	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Financial Institutions Rating Criteria
Rating Bank Subordinated and Hybrid Securities

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