AXIS BANK

AXIS/CO/CS/238/2019-20

04th June, 2019

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

NSE Code: AXISBANK

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

BSE Code: 532215

Dear Sir(s),

SUB: REVISION OF CREDIT RATING ASSIGNED BY FITCH RATINGS
REF: REGULATION 30 OF SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

This is to inform you that Fitch Ratings has revised the Long term Issuer Default Rating (IDR) from 'BBB-' (Outlook: Negative) to 'BB+' (Outlook: Stable) and Short Term IDR from 'F3' to 'B' of the Bank on 03rd June, 2019.

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

Thanking You,

Yours faithfully,
For Axis Bank Limited,

Girish Koliyote
Company Secretary

CENTRAL OFFICE * AXIS BANK LTD. * MUMBAI

FitchRatings

Fitch Downgrades Axis Bank's IDR to 'BB+'; Outlook Stable

Fitch Ratings - Mumbai - 03 June 2019: Fitch Ratings has downgraded the Long-Term Issuer Default Rating (IDR) and Viability Rating of Axis Bank Ltd. to 'BB+' and 'bb+', respectively, from 'BBB-' and 'bbb-'. The Outlook is Stable. Fitch has also affirmed Axis's Support Rating and Support Rating Floor at '3' and 'BB+', respectively. A full list of rating actions is at the end of this commentary.

Fitch took the rating action after lowering its midpoint for India's operating environment to 'bb+' from 'bbb-' following a review of the banking sector's performance, particularly in the last three years, the regulatory framework for the sector, and the outlook in the near term. We also compared the operating environment in India (BBB-/Stable), using key metrics such as GDP per capita and the ease-of-doing-business ranking, with those of other sovereigns in Asia rated in the 'BBB' category. We expect the performance of India's banking sector to be below average over the next one to two years despite our expectations of high economic growth and improving business prospects. Banks in India - which remain the biggest credit intermediaries in the country - are positioned to take advantage of this opportunity, provided their damaged balance sheets recover sustainably with the infusion of fresh equity that encourage them to support credit growth in a meaningful way.

Fitch believes that the performance of Indian banks has largely bottomed out, but the sector is still struggling with poor asset quality and weak core capitalisation. Fitch estimates that Indian banks' impaired loan ratio fell to 10.8% at end-December 2018 from 11.5% at the end of the financial year to March 2018 (FYE18), which continues to be high by global standards. Capital buffers are still assessed by Fitch as moderate, including for private-sector banks, especially in light of their high impaired loan ratios, high risk appetite and the challenging but competitive operating environment.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Axis Bank Ltd.	Support 3 Affirmed	3
	Viability bb+ Downgrade	bbb-
	Support Floor BB+ Affirmed	BB+
	STIDR B Downgrade	F3
	LTIDR BB+ ○ Downgrade	BBB-⊖
senior unsecured	LT BB+ Downgrade	BBB-

Key Rating Drivers

IDR, SUPPORT RATING AND SUPPORT RATING FLOOR
The Long-Term IDR on Axis is driven by its Viability Rating, which is the same as its Support Rating Floor. The Stable Outlook on its IDR reflects our expectation of limited downside pressure on the IDR in the foreseeable future.

The bank's Support Rating of '3' and Support Rating Floor of 'BB+' reflect Fitch's expectation that it is less likely to receive extraordinary state support, if required, than the large state banks (with SRF of BBB-) due to its private ownership. Fitch believes that the sovereign's constrained finances and the large number of majority government-owned banks that are systemically important and have weak capitalisation means that these banks will have priority in terms of timeliness of government support. The state has a track record of supporting systemically important banks, which we view Axis to be, although Axis has not required support in the past.

VR
The downgrade of Axis's VR reflects its relatively weak core capitalisation and asset quality, which, despite some improvements in the near term, are not commensurate with Fitch's expectation of higher rated entities in operating environments viewed as broadly comparable to that facing Indian banks.

Fitch believes that Axis's core capital ratio is unlikely to meet the threshold for higher-rated banks even if the bank proceeds with the conversion of USD400 million of warrants into equity and fresh equity issuance in the near term. Axis's Fitch Core Capital ratio of 10.7% and common equity Tier 1 ratio of 11.3% at FYE19 are lower than comparable private banks in India and global benchmarks, which renders Axis vulnerable to shocks or further deterioration in the operating environment.

Axis's impaired loan ratio improved to 5.8% by FYE19 from 6.8% a year earlier. This compares well against some local private banks, but is still well above Fitch's expectation for higher rated banks, and we do not expect Axis to reach that level in the near term. Earnings slightly recovered in FY19, but operating profit/risk weighted assets was subdued at 1.3%. We see potential for a stronger earnings recovery in FY20 in line with management's guidance, but this is likely to entail above-sector growth and potentially higher risk appetite. The risks may be mitigated by the bank's initiatives in risk management and control.

Axis's VR also takes into account its retail franchise, which compares well against other Indian banks and reflects its stable funding profile (low-cost deposit ratio of 44% at FYE19).

SENIOR DEBT
Axis's senior debt ratings have also been downgraded to 'BB+' from 'BBB-' in line with the IDR, as the debts represent the bank's unsecured and unsubordinated obligations.

Rating Sensitivities

IDR
Axis's IDR is still driven by its VR. An improvement in the bank's VR would lead to an equivalent increase in the IDR. However, there is limited downside risk to the IDR in the event of a VR downgrade so long as SRF remains unchanged, implying that our assessment of the sovereign's ability and propensity to support the bank remains intact.

The IDR is also less sensitive to a downgrade in the sovereign rating as its SRF is lower than the sovereign rating. Similarly, a sovereign rating upgrade would also not lead to an upgrade in the bank's IDR unless the former coincided with a strengthening of the sovereign's ability and propensity to support the bank, in Fitch's view. However, we do not expect that in the near term.

SENIOR DEBT
Any changes in the bank's IDR would result in equivalent changes in their senior debt ratings.

VR
Further improvement in Axis's impaired loan ratio and earnings would add stability to its VR. However, the VR may not be upgraded until Fitch is confident that its capital buffer can be sustained at significantly higher levels so that there is more than a moderate cushion against risks common in a challenging operating environment. Substantial injections of fresh equity in the near term will help bolster the capital buffer, providing that it is also accompanied by continued improvement in other areas, such as the impaired loan ratio (to significantly lower than 5%) and profitability, without the bank also increasing its risk appetite.

Axis's VR, which is below the sovereign rating, would be unaffected by a sovereign downgrade, unless it represented further significant deterioration in the operating environment and there were also lingering pressures on the bank's financial profile.

SUPPORT RATING AND SUPPORT RATING FLOOR
Any changes to Fitch's assessment of the government's propensity and ability to support Axis, based on the bank's size, systemic importance and ownership, would affect the Support Rating and Support Rating Floor.

Environmental, Social and Governance (ESG) Issues: Axis's financial transparency is scored '4' on Fitch's ESG scale. It reflects our view that the quality and frequency of financial reporting and the auditing process have an impact on its VR, which in turn drives the IDR. Axis's sharp financial deterioration in recent years was driven mainly by regulatory audits that forced the banks in India to recognise non-performing loans (NPLs) after the NPL ratios of banks and the regulator diverged.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Ambreesh Srivastava
Senior Director
+65 6796 7218
Fitch Ratings Singapore Pte Ltd.
One Raffles Quay #22-11, South Tower
Singapore 048583

Secondary Rating Analyst
Saswata Guha
Director
+91224000 1741

Committee Chairperson
Jonathan Cornish
Managing Director
+852 2263 9901

MEDIA CONTACTS

Bindu Menon
Mumbai
+91 22 4000 1727
bindu.menon@fitchratings.com

Leslie Tan
Singapore
+65 6796 7234
leslie.tan@thefitchgroup.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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