

AXIS/CO/CS/373/2023-24

October 17, 2023

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

BSE Limited
1st Floor, New Trading Ring,
Rotunda Building
P. J. Towers, Dalal Street
Fort, Mumbai – 400 001

NSE Symbol: AXISBANK

BSE Scrip Code : 532215

Dear Sir(s),

SUB: RATING ACTION BY FITCH RATINGS FOR AXIS BANK LIMITED ("BANK")

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

This is to inform you that credit rating agency Fitch Ratings has affirmed Bank's Long-Term Issuer Default Rating (IDR) at 'BB+'. The Outlook is 'Stable'. Fitch Ratings has also affirmed the Bank's Government Support Rating (GSR) at 'bb+' and its 'Viability Rating (VR) at 'bb'.

The rating action letter received from Fitch is attached herewith.

This is for your information and records.

Thanking you.

With warm regards,

For Axis Bank Limited

Sandeep Poddar
Company Secretary

Encl.: As above

CC: London Stock Exchange
Singapore Stock Exchange

RATING ACTION COMMENTARY

Fitch Affirms Axis Bank at 'BB+'; Outlook Stable

Mon 16 Oct, 2023 - 10:07 AM ET

Fitch Ratings - Singapore/Mumbai - 16 Oct 2023: Fitch Ratings has affirmed India-based Axis Bank Limited's Long-Term Issuer Default Rating (IDR) at 'BB+'. The Outlook is Stable.

The agency has also affirmed the bank's Government Support Rating (GSR) at 'bb+', and its Viability Rating (VR) at 'bb'. A full list of rating actions is below.

KEY RATING DRIVERS

Support-Driven IDR: Axis' Long-Term IDR is driven by its GSR. The GSR is one notch below India's sovereign rating (BBB-/Stable), reflecting Fitch's expectation of a moderate probability of extraordinary state support for Axis relative to large state banks. The Stable Outlook mirrors that on the sovereign rating. Axis' VR is one of the highest among Fitch-rated Indian banks and has a positive bias, reflecting our expectation of further improvement in key financial metrics, notably asset quality and earnings.

Moderate Systemic Importance: Axis' systemic importance is driven by its size and share of system loans and deposits, which were 6% and 5%, respectively, at the end of the financial year to 31 March 2022 (FYE22), and its nationwide retail deposit franchise. However, the probability of support is lower for Axis than for large state banks due to Axis' private ownership.

Supportive Operating Environment (OE): Fitch has revised the OE score to 'bb+' from 'bb', reflecting our view of structural improvements since the onset of the pandemic. Healthy business sentiment, resilient financial markets and the government's capital spending can buffer global economic headwinds and inflation. India also exhibits robust medium-term growth potential, supported by resilient investment prospects. We believe the growth potential, combined with an already large and diversified economy, is conducive for banks to do consistently profitable business, provided risks are well-managed.

Established Domestic Franchise: Axis' business profile score of 'bb+' reflects Axis' strong local franchise and above-average capitalisation, which should support sustained business and revenue generation through the cycle. The bank's appetite for growth is likely to further increase in an improving economy, similar to other large private banks, and therefore its ability to manage and control risks in a sustained manner is important to our overall assessment.

Above-Average Growth Plans: Axis's risk profile score is aligned with the asset-quality score, but its high loan growth, which in the past has reflected an above-average risk appetite (similar to other large private banks), weighs on the score. Axis has managed risks better but there is a fast build-up in unseasoned risks, with new loan growth of 21.7% yoy in 1QFY24, and plans to grow by 400bp-600bp above the sector average. Hence, through-the-cycle performance remains key.

We expect broad-based growth across segments, but sustained rapid expansion would test the bank's enhanced risk framework if operating conditions become less benign, especially given the build-up in personal and credit-card loans in the loan mix.

Asset Quality Metric to Improve: We have revised the outlook on Axis' asset-quality score to positive, from stable, as we expect the current impaired-loan ratio (1QFY24: 2.1%) to be sustained over the next two years, driving the four-year average towards the upper end of the 'bb' range in terms of implied score. Specific loan-loss cover improved further by 100bp over FY23 to about 80% in 1QFY24 and contingent provisions amount to roughly 1.4% of loans, which should further buffer downside risks.

Profitability Upside Remains: We revised the outlook on earnings and profitability to positive from stable as we expect Axis to maintain profitability at or above current levels, provided credit costs remain in check. Operating profit/risk-weighted assets (RWAs) improved to 3.6% in 1Q24, from 3.4% in FY23, due to a higher net interest margin, robust income growth and stable credit costs, which more than offset higher operating costs.

Organic CET1 Accretion: We expect Axis' common equity Tier 1 (CET1) ratio (1Q24: 14.4% including profit) to further improve, supported by internal accruals which will provide more support to the 'bb' score. The CET1 ratio may rise more than our expectations if the bank is able to sustain the current quarterly additions to its CET1 ratio while also raising fresh equity.

Management's plan to defer raising fresh capital to mitigate the impact of acquisitions is a change from its previous stance although Axis enjoys access to capital markets, should it

need funds. We expect the bank to maintain adequate buffers well over Fitch's 10% 'bb' amid its ambitious growth plans.

Stable Funding: Axis' loan/deposit ratio (LDR) remained elevated at around 93% in 1QFY24 based on preliminary disclosures. Customer deposits account for around 85% of total non-equity funding in 1QFY24, of which roughly 80% were retail. We expect a slight increase in the LDR, although below previous years' highs (FY18: 104%), which reflects our expectation that Axis will continue to expand its deposit franchise, despite high loan growth. The bank's stable funding and liquidity position also benefits from a liquidity coverage ratio of 123% and a net stable funding ratio of 135%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We would downgrade the GSR and, in turn, the IDR, if we believe the sovereign's ability and propensity to support Axis has weakened. This could be the case if the sovereign rating is downgraded. Similarly, a change in the Outlook on the sovereign to Negative would lead to a corresponding revision in the Outlook on Axis's IDR.

VR

We expect the VR to be stable in the near term, but recent improvements have increased rating headroom, thereby limiting the prospect of negative action. Nevertheless, the VR could be downgraded if we believe that the bank's risk profile has deteriorated to a point where it can pose a risk in a less benign OE, and become a more binding constraint on its loss-absorption buffers. This could manifest through weakening in all the following three key financial metrics:

- a drop in the CET1 ratio to below 12%, without a credible plan to restore it back to 15%-16%; alongside
- a reversal in the asset-quality trend, with the four-year average impaired-loan ratio exceeding 5%; and
- four-year average operating profit/RWA ratio sustained below 1.25%.

A lower risk profile score - though not our base case - could also weigh on the VR, particularly if it were to manifest in a deterioration in one or more of the above financial

metrics.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

A sovereign rating upgrade, which appears unlikely in the near term, could lead to an upgrade in the bank's GSR and IDR if it coincided with a strengthening of the sovereign's ability and, more importantly, propensity to support the bank, in Fitch's view.

Similarly, a positive change in the Outlook on the sovereign rating could lead to a corresponding revision in the Outlook on the bank's IDR, provided we expect the sovereign's ability and propensity to extend support to improve commensurately.

The VR could be upgraded if we assess that there is a sustainable improvement in the bank's risk and financial profiles. The improvements could be manifested through any one or a combination of the following three key financial metrics:

- four-year average impaired-loan ratio approaching 2%; or
- four-year operating profit/RWA ratio sustained above 3.5%; or
- the CET1 ratio sustained at or above 16%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The bank's medium-term note programme is rated at the same level as the Long-Term IDR, in line with Fitch's criteria.

The Long-Term IDR (xgs) is driven by its VR, while its Short-Term IDR (xgs) is in accordance with its Long-Term IDR (xgs) and the short-term rating mapping outlined in Fitch's criteria. Senior unsecured long-term ratings (xgs) are assigned at the level of the Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The programme rating would be downgraded if the Long-Term IDR is downgraded, and upgraded in the event the IDR is upgraded.

Axis' Long-Term IDR (xgs) will move in tandem with the bank's VR. Axis's Short-Term IDR (xgs) is primarily sensitive to changes in the bank's Long-Term IDR (xgs) and would be mapped as per Fitch's criteria. A change in the bank's Long-Term IDR (xgs) would lead to a similar change in its senior unsecured long-term rating (xgs).

VR ADJUSTMENTS

The OE score of 'bb+' is above the implied category score of 'b' for the following adjustment reasons: economic performance (positive), and size and structure of the economy (positive).

The business profile score of 'bb+' has been assigned below the implied category score of 'bbb' due to the following adjustment reason(s): business model (negative).

The funding and liquidity score of 'bbb-' is above the implied category score of 'bb' for the following reason: deposit structure (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Axis's IDR and the Outlook are linked to India's sovereign Long-Term IDR via the GSR, which reflects our view of the probability of extraordinary state support, if needed.

ESG CONSIDERATIONS

Fitch has revised Axis' ESG Relevance Score for Financial Transparency to the sector default score of '3' from '4'. The change highlights the change in Fitch's view that risks from Covid-19-affected loans under forbearance have receded. We believe that a large proportion of these stressed loans may be covered by a government guarantee, which minimises the risk of losses from the portfolio. The quality and frequency of financial reporting and audit processes are also commensurate with a score of '3', and do not weigh materially on our assessment of the bank's intrinsic creditworthiness.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores,

visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS



ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Axis Bank Limited	LT IDR	BB+	Rating Outlook Stable	BB+ Rating Outlook Stable
	Affirmed			
	ST IDR	B	Affirmed	B
	Viability	bb	Affirmed	bb
	Government Support	bb+	Affirmed	bb+
	LT IDR (xgs)	BB(xgs)	Affirmed	BB(xgs)
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)
senior unsecured	LT	BB+	Affirmed	BB+
senior unsecured	LT (xgs)	BB(xgs)	Affirmed	BB(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 02 Sep 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Axis Bank Limited

EU Endorsed, UK Endorsed

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