AXIS/CO/CS/428/2022-23

December 6, 2022

Listing & Compliance Department
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 Symbol: AXISBANK

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

BSE Scrip Code : 532215

Dear Sir(s),

SUB: RATING ACTION BY INDIA RATINGS AND RESEARCH.

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 assigned Axis Bank Limited's Basel III Tier II Bonds and Infrastructure Bonds "IND AAA'/Stable and has affirmed other ratings.

The instrument wise rating action along with rationale letter dated December 6, 2022 issued by India Ratings and Research is enclosed herewith.

This is for your information and records.

Thanking you.

With warm regards,

For Axis Bank Limited

SANDEEP PODDAR Digitally signed by SANDEEP PODDAR Date: 2022.12.06 21:48:16 +05'30'

Sandeep Poddar
Company Secretary

Encl.: As above

CC: London Stock Exchange
Singapore Stock Exchange

IndiaRatings & Research
A Fitch Group Company

Login

India Ratings Assigns Axis Bank's Basel III Tier II Bonds and Infrastructure Bonds 'IND AAA'/ Stable; Affirms Other Ratings

Dec 06, 2022 | Private Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on Axis Bank Limited (Axis):

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AAA	Affirmed
Short-Term Issuer Rating				-	IND A1+	Affirmed
Basel-III compliant Tier 2 bonds *	-	-	-	INR100	IND AAA/Stable	Affirmed
Basel-III compliant Tier 2 bonds*^	-	-	-	INR120	IND AAA/Stable	Assigned
Infrastructure bonds*^				INR100	IND AAA/Stable	Assigned
Basel III AT1 bonds *	-	-	-	INR35	IND AA+/Stable	Affirmed

*Details in Annexure

^Yet to be issued

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 46.2% at 1HFYE23, but still below the 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 Axis's 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. Although Axis reported the highest-ever profitability in a decade in FY22, further improvement on a sustainable basis in line with the management targets and successful integration of Citibank N.A.'s (Citibank; 'IND A1+') retail franchise while keeping customer and employee attrition to a minimum will be key monitorable over 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

Improved Asset Quality and Profitability: Since FY20, 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 enterprise (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. Furthermore, the overall PCR (ex-technical write-offs) improved by 265bp qoq to 79.92% in 2QFY23, with the retail book carrying a PCR of 65% (79% of the retail book is secured and 45% is towards home loans and loan against property segments), SMEs at 74% and corporates at 88%. The bank's net non-performing asset (NPA)-to-common equity tier-I (CET I) capital for 2QFY23 stood at 3.2%. At end-2QFY23, Axis held additional provisions (not included in the PCR) of INR116.25 billion which constituted 2.9x of the net NPA.

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 a similar movement in SME advances as well. While uncertainty continues to prevail given the impact on the asset quality from the future COVID-19 waves and the ultimate slippages from the restructured and emergency credit line guarantee scheme where the bank holds a relatively smaller than peer portfolio, a strong PCR, along with additional provisions, provides comfort.

Axis's average return on asset (ROA) increased to 1.6% on an annualised basis in 1HFY23 (FY22: 1.2%; FY21: 0.7%), moving steadily towards its pre-FY17 average ROA range of 1.6%-1.7%, as credit costs sustain at or below Axis's long-term historical average of 110bp. Even the operating buffers (pre-provisioning operating profit/provisions) improved significantly in FY22 to 3.4x (FY21: 1.6x) and an average of 1.4x over FY17-FY21.

Healthy Capital Buffers: At end-1HFY23, Axis's CET-I capital was healthy at 15.14% (including 1HFY22 profits) and its total capital adequacy ratio at 17.72%. Furthermore, the bank's ability to raise equity capital from the markets is reflected well with it raising INR338 billion over FY18-FY21. The agency believes Axis is in a comfortable position to absorb elevated levels of asset quality stress, should the need arise. This is because it had a provisions coverage ratio of 79.92% at 1HFY23, an improving rating profile for the corporate and SME portfolios and additional provisions (COVID-19 provisions and higher-than-regulatory standard asset provisions). The proportion of risk weighted assets to total assets stood at 66% in 1HFY23 (FY22: 61%; FY21: 64%; FY20:67%; FY19: 69%; FY18: 75%;) and the agency believes this is likely to inch up over the near-to-medium term with the bank focusing on growing the mid-corporate and SME portfolios.

With the bank looking to outpace the banking system credit growth which itself moved to about 17.2% (as of mid-November 2022) along with the acquisition of Citibank's (India branch) retail franchise underway, the agency expects the bank to raise equity capital over the next couple of years. Strong internal accruals with a revival in profitability will partially offset the requirements on an immediate basis even as the bank remains committed to operating with buffers at least 300bp-400bp over the minimum regulatory requirements for capital.

Continuing to Build Presence Across Financial Services Value Chain: Axis is scaling up its presence across the financial services value chain, with a presence in the businesses such as brokerage, asset management, life 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 remains constrained in comparison to comparable peers.

Liquidity Indicator – Adequate: Axis maintained a cumulative funding deficit of 5.4% in the up to one-year bucket as a percentage of the total assets at end-2QFY23. Axis also maintained 23.50% of its total assets in balances with the Reserve Bank of India and in government securities during 2QFY23, to meet its short-term funding requirements. In addition, the bank had a comfortable liquidity coverage ratio of 121% in 2QFY23, sufficiently above the regulatory requirement of 100%.

Liability Engine Needs to Perform Better: Axis’s CASA ratio improved only marginally to 46.2% at 1HFYE23 (FY22: 45.0%, FY21: 44.9%), with the CASA growing at 14.4% yoy, in comparison to the overall deposit growth of 10.1% yoy. The share of retail term deposits declined to 35.5% of overall deposits in 2QFY23 (FY21: 39.5%), with non-retail term deposits growing robustly at 25.2% yoy in 2QFY23. The cost of funds declined to a low of 3.77% in 3QFY22, but increased to 4.09% in 2QFY23 (down from a peak of 5.7% in 1QFY20). The bank remains focused on increasing the CASA ratio further and improve the profile of deposits which should also aid the margins. Axis’s concentration in deposits remains higher than comparable ‘AAA’ rated peers, with the top 20 depositors constituting 10.09% of the overall deposits in FY22 increased from 7.9% in FY21.

Acquisition of Citibank (India Branch) Retail Business – Integration is Key: Ind-Ra believes the transaction strengthens the franchise of Axis with the addition of 2.5 million Citibank credit cards, INR1,109 billion in assets under management from the Citi Wealth and Private Banking Franchise, deposits of INR502 billion (81% is CASA), over 1,600 Suvidha corporate relationships with more than 1.0 million salaried customers (average per month salary of INR70,000) and Citibank phone banking support and 3,600 employees. This further provides an opportunity to cross sell to Citibank’s premium and affluent customer base. A potential risk is the integration of the franchise and the ability to retain the customers and employees which will be a key monitorable over the near-to-medium term. As part of the deal, Axis has built in safeguards whereby it has a formula-driven clause which allows them to adjust the purchase price in case of an exit of customers.

Gap on Net Interest Margins with Peers to be Bridged Over Next Two-to-Three Years: The gap between the net interest margins for the bank and its comparable to ‘AAA’-rated peers widened to 40bp-50bp at FYE22. Over the next two-to-three years, the management plans to calibrate levers both on the deposit and asset side which will aid in bridging this gap. The agency believes with a stable and tenured management team in place and the strategic plan in play, the gap in margins is likely to reduce incrementally and it will remain a key monitorable over the near-to-medium term.

Rating Sensitivities

Negative: The Outlook could be revised to Negative if the asset quality starts deteriorating sharply and the 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 CET I falling below 11.0% on a sustained basis, net NPA to CET I capital rising sharply higher-than-comparable peer group, significant erosion of franchise – reduction of deposits or advances market share, all on a sustained basis, or a weakening of the relative competitiveness in the banking space. Weakened liquidity or funding profile may also result in a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Axis, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

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-FY22, the bank's net advances stood at INR7,077 billion. The bank had a pan-India presence with a network of 4,758 domestic branches at FYE22.

FINANCIAL SUMMARY

Particulars (INR billion)	FY22	FY21
Total assets	11,752	9,868
Total equity	1,150	1,016
Net income	130.3	65.9
ROA (%)	1.21	0.70
CET-I (%)	15.24	15.40
Capital adequacy ratio (%)	18.54	19.12
Source: Axis, Ind-Ra		

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical R		
	Rating Type	Rated Limits (billion)	Rating	11 May 2022	12 May 2021	
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IN
Basel-III compliant Tier 2 bonds	Long-term	INR220	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	
Basel III AT1 bonds	Long-term	INR35	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	
Infrastructure bonds	Long-term	IND100	IND AAA/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 (Basel-III compliant Tier 2 bonds)					INR92.3	
Total unutilised (Basel-III compliant Tier 2 bonds)					INR127.7	
Basel III AT1 bonds	INE238A08443	28 June 2017	8.75	Perpetual	INR35	IND AA+/Stable
Total utilised (Basel III AT1 bonds)					INR35	
Total untilised limits (infrastructure bonds)					INR100	

Complexity Level of Instruments

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

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

Contact

Primary Analyst
Karan Gupta
Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001744
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Ankit Jain
Senior Analyst
+91 22 40356160

Chairperson
Prakash Agarwal
Director and Head Financial Institutions
+91 22 40001753

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

The Rating Process