

AXIS/CO/CS/1071/2019-20

3<sup>rd</sup> April 2020

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NSE Symbol: AXISBANK

BSE Scrip Code : 532215

Dear Sir(s),

**SUB.: MOODY'S RATING ACTION.**

**REF.: DISCLOSURE UNDER REGULATION 30 READ WITH PARA A OF SCHEDULE III AND REGULATION 46(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.**

This is to inform you that, credit rating agency Moody's has today revised the outlook for the Bank from stable to negative. Further, it has downgraded the counterparty risk assessments of the Bank to Baa3(cr)/P-3(cr) from Baa2(cr)/P-2(cr), and the local currency counterparty risk rating of the Bank to Baa3/P-3 from Baa2/P-2. The rating action letter by Moody's containing the reason for above downgrade is attached 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 V. Koliyote**  
**Company Secretary**

Encl.: as above

**Rating Action: Moody's takes rating actions on four Indian financial institutions**


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03 Apr 2020

Singapore, April 03, 2020 -- Moody's Investors Service ("Moody's") has affirmed the deposit ratings of ICICI Bank Limited ("ICICI") and Axis Bank Ltd ("Axis") at Baa3, and of IDBI Bank Ltd ("IDBI") at Ba2.

Moody's has also placed IndusInd Bank Limited's ("IndusInd") domestic and foreign currency issuer ratings of Baa3/P-3 under review for downgrade. The bank's ba1 baseline credit assessment (BCA) and adjusted BCA have also been placed under review for downgrade.

The baseline credit assessment (BCA) and adjusted BCA of ICICI and Axis are affirmed at ba1. The BCA and adjusted BCA of IDBI has also been affirmed at b2.

Moody's has also downgraded the counterparty risk assessments (CR assessments) of Axis and ICICI to Baa3(cr)/P-3(cr) from Baa2(cr)/P-2(cr), and the local currency counterparty risk rating (CRR) of Axis and ICICI to Baa3/P-3 from Baa2/P-2.

At the same time, the outlooks for ICICI and Axis are revised to negative from stable, and for IDBI to stable from positive.

Please click on this link [https://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_ARFTL421957](https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL421957) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

**RATINGS RATIONALE**

The rapid and widening spread of the coronavirus outbreak deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The Indian financial system has been one of the sectors affected by the shock, especially given the already weakening operating environment. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on the four financial institutions listed above of the breadth and severity of the shock, and the deterioration in credit quality it may trigger.

**CHANGE IN OUTLOOK ON ICICI, AXIS AND IDBI DRIVEN BY POTENTIAL DETERIORATION IN ASSET QUALITY**

Moody's expects the economic shock, resulting from the nationwide lockdown will exacerbate existing negative pressure on asset quality from the already deteriorating operating environment prior to the outbreak. The Indian government announced a 21-day nationwide lockdown to slow the spread of the coronavirus on 25 March.

Given the limited liquidity buffers small and medium-sized enterprises (SMEs) maintain Moody's expects the quality of loans to these segments by ICICI and Axis will deteriorate. Additionally, the asset quality of retail loans, and in particular unsecured retail loans will deteriorate as borrowers' incomes are lost or reduced during the lockdown.

Large corporates are also not immune from the outbreak, with the outbreak having the potential to reverse the improving trend in credit metrics.

For IDBI, the incremental impact on asset quality will be cushioned by its very low new business origination over the last few years. However, its weaker underwriting increases asset quality risks in this environment.

**AFFIRMATION OF BCA AND DEPOSIT RATINGS OF ICICI, AXIS AND IDBI REFLECTS STRONG BUFFERS**

Both ICICI and Axis maintain strong capital, with a common equity tier 1 (CET1) ratio of 13.2% and 13.8% respectively at the end of December 2019. The two banks also have high core profitability, providing them with capacity to absorb higher credit costs. Their funding has a high contribution from stable retail deposits and will remain resilient even in an environment of increased risk aversion. Given the above factors, there will have to be a significant deterioration in asset quality to erode these buffers.

IDBI's solvency has improved significantly over the last year, because of large capital infusions from its controlling shareholder, Life Insurance Corporation (LIC), and from the government of India (Baa2 negative). Its provision coverage ratio was 87% at the end of December 2019, one of the highest among rated Indian banks. And at 10.0%, the bank's CET1 ratio is consistent with its BCA of b2.

The bank's funding profile has also improved significantly, with the proportion of funding from retail deposits significantly increased. The bank's casa ratio was 48% at the end of December 2019, compared to 38% at the end of March 2018, while the share of bulk deposits declined to 17% from 33% over the same period.

**DOWNGRADE OF CRR AND CRA OF ICICI AND AXIS REFLECTS LOWERED ASSUMPTION OF SUPPORT**

Moody's has lowered its assumption of systemic support for ICICI and Axis to 'moderate' from 'high', resulting in a one-notch downgrade of their CRRs and CRAs. This change incorporates Moody's expectation, based on bailout of Yes Bank Limited

(Caa1 Positive, ca), that government support for private sector banks will not be as forthcoming and timely as was being previously assumed.

In the case of Yes Bank, support was provided after the imposition of a moratorium on the bank, which is an event of default. This points to institutional constraints in providing timely support. In addition, the quantum of support extended was also not high as, even post the bailout, the bank's credit metrics remain weak.

Also, Moody's has assigned foreign currency CRR of Baa3/P-3 to ICICI and Axis and their respective subsidiaries wherever it was not previously assigned. The foreign currency CRR are at the same level as the local currency CRR of their respective subsidiaries as the risk profile of these obligations are similar. For ICICI Bank Limited, Bahrain Branch, Moody's has assigned foreign currency CRR of Ba2/NP, in line with the subsidiary's local currency CRR.

Moody's continues to assume a very high level of systemic support for IDBI, given its continued strong links with the government. This is reflected in its ownership structure, with the 100% government-owned LIC holding a 51% controlling stake, and the government of India holding 47%. The track record of large capital infusions from the government and LIC also support Moody's assumption of a very high level of support.

#### REVIEW FOR DOWNGRADE OF INDUSIND REFLECTS RISKS TO ASSET QUALITY

The review for downgrade of IndusInd's ratings reflects the downside risks to asset quality amid the deteriorating macroenvironment and financial market volatility.

The bank's loan portfolio includes a relatively higher proportion of micro finance and vehicle finance loans than its peers, which are at high risk of being negatively impacted by the economic shock as customers in these segments tend to have limited buffers to withstand economic stress.

IndusInd's funding is weak when compared to other rated Indian banks, as reflected by its high deposit concentration and low share of retail deposits. This weaker funding makes the bank more susceptible to the dislocations in the financial markets, including on wholesale funding sources.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

##### WHAT COULD CHANGE THE RATINGS UP

###### ICICI, AXIS:

Given the negative outlook on ICICI and Axis, the ratings of these two banks are unlikely to be upgraded over the next 12-18 months.

The outlook could return to stable if asset quality remains steady despite the deteriorating macro environment, or if the impact from the coronavirus outbreak on the macro environment is not as severe as Moody's currently anticipates.

###### IDBI:

Moody's could upgrade IDBI's BCA if it improves profitability on a sustained basis, keeping credit costs at relatively low levels.

The final ratings could be upgraded if the bank's BCA is upgraded.

###### INDUSIND:

Given the review for downgrade, Moody's is unlikely to upgrade the ratings over the next 12-18 months.

Moody's could confirm IndusInd's ratings if (1) high-quality retail deposits continue to grow at around the same rate as they were till the end of December 2019 and (2) leading indicators of asset quality remain stable.

##### WHAT COULD CHANGE THE RATINGS DOWN

###### ICICI, AXIS:

The BCA could be downgraded if (1) there is a significant weakening in asset quality, with in turn negative implications on capital and profitability, and (2) there are indications of weakening funding, as reflected by the trend in retail deposits.

A downgrade of the BCA will lead to a downgrade of the final rating. Any indication of diminishing government support for the banks could also lead to a downgrade of their final ratings.

###### IDBI:

The BCA could be downgraded if asset quality further weakens, pushing the bank into making losses driven by higher credit costs.

A downgrade of the BCA will lead to a downgrade of the final rating. Any indication of diminishing government support for the banks could also lead to a downgrade of their final ratings.

###### INDUSIND:

IndusInd's BCA and Adjusted BCA could be downgraded if (1) there is no meaningful improvement in growth in stable sources of funding, (2) asset quality weakens, such that either NPL ratios or credit costs increase significantly from current levels, and (3) there is a reduction in profitability at the PPI level.

IndusInd's final ratings could be downgraded if (1) its BCA is downgraded, or if (2) the sovereign rating is downgraded.

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at [https://www.moodys.com/research/Banks-Methodology--PBC\\_1147865](https://www.moodys.com/research/Banks-Methodology--PBC_1147865). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

ICICI Bank Limited is headquartered in Mumbai, and reported total assets of INR 10.1 trillion at 31 December 2019.

Axis Bank Ltd is headquartered in Mumbai, and reported total assets of INR 8.2 trillion at 31 December 2019.

IDBI Bank Ltd is headquartered in Mumbai, and reported total assets of INR 3.0 trillion at 31 December 2019.

IndusInd Bank Limited is headquartered in Pune, and reported total assets of INR 3.1 trillion at 31 December 2019.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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The ratings have been disclosed to the rated entities or their designated agents and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating outcome announced and described above.

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