AXIS/CO/CS/408/2024-25

October 1, 2024

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

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

BSE Scrip Code : 532215

Dear Sir/Madam,

SUB: RATING ACTION BY INDIA RATINGS AND RESEARCH

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

This is to inform you that credit rating agency India Ratings and Research has affirmed rating for various instruments of Axis Bank Limited ("the Bank"), as under.

Sr. No.	Facilities/Instruments	Amount (Rs. billion)	Rating	Rating Action
1	Long-Term Issuer Rating	-	IND AAA; Stable	Affirmed
2	Fixed deposits (FD)	-	IND AAA; Stable	Affirmed
3	Basel-III compliant Tier 2 bonds	220.00	IND AAA; Stable	Affirmed
4	Infrastructure bonds^	100.00	IND AAA; Stable	Affirmed
5	Basel III AT1 bonds ^	35.00	IND AA+; Stable	Affirmed

^ Yet to be issued

The rating rationale letter of India Ratings and Research received by the Bank via email on October 1, 2024 is attached herewith.

This is for your information and records.

Thanking you.

Yours faithfully,

For Axis Bank Limited

Sandeep Poddar Digitally signed by Sandeep Poddar Date: 2024.10.01 21:29:13 +05'30'

Sandeep Poddar
Company Secretary

Encl.: As above
CC: London Stock Exchange
Singapore Stock Exchange

India Ratings & Research
A Fitch Group Company

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

Oct 01, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has affirmed Axis Bank Limited's (Axis) Long-Term Issuer Rating at 'IND AAA'. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/ Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AAA/Stable	Affirmed
Fixed deposits (FD)	-	-	-	-	IND AAA/Stable	Affirmed
Basel-III compliant Tier 2 bonds *	-	-	-	INR220	IND AAA/Stable	Affirmed
Infrastructure bonds^				INR100	IND AAA/Stable	Affirmed
Basel III AT1 bonds ^	-	-	-	INR35	IND AA+/Stable	Affirmed

* Details in Annexure
^ Yet to be issued

Analytical Approach

Ind-Ra continues to fully consolidate Axis's subsidiaries while arriving at the ratings.

Detailed Rationale of the Rating Action

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 5.5% market share in terms of assets. 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 41.8% at end-1QFY25, the highest among its peer group. Furthermore, the bank's existing capital buffers and its ability to raise capital have been 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) will provide the bank a cushion against any near-term shocks. A further improvement in the profitability on a sustained basis, in line with the management targets, is a positive while controlling slippages will be a 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.

List of Key Rating Drivers

Strengths
- Improving internal accruals and adequate capital buffers
- Liability engine performing better
- Stability in operational metrics
- Stable asset quality metrics, slippages to remain monitorable
- Continuing to build presence across financial services value chain

Weaknesses

None

Detailed Description of Key Rating Drivers

Improving Internal Accruals and Adequate Capital Buffers: In 1QFY25, Axis's CET-I capital was healthy at 14.06% and its total capital adequacy ratio at 16.65% (including profits). Furthermore, the bank has demonstrated ability to raise equity capital from the markets by raising INR338 billion over FY18-FY21. The agency believes Axis is in a comfortable position to absorb asset quality stress, should the need arise. Furthermore, with an overall provision coverage ratio of 78.1% in 1QFY25 and additional provisions of INR50.1 billion (40bp), Ind-Ra believes the capital buffers in medium term would remain significantly higher than the regulatory requirements, and would help to build buffers ahead of the implementation of expected credit loss norms.

The bank has already showed improving return on assets (ROA) trajectory from FY20 to FY24 (FY24, 1.83%; FY23: 0.80%, FY22: 1.21%; FY21: 0.70%; FY20: 0.20%) and with current ROA of 1.65% in 1QFY25, which Axis intends to stabilise in the medium term, the bank will further add to existing buffers and suffice for future advances growth requirement. Furthermore, the bank remains committed to operating with buffers at least 300-400bp over the minimum regulatory requirements for capital.

Liability Engine Performing Better: The bank's CASA deposit ratio on deposits declined to 41.8% in 1QFY25 (FY24: 43.0%), which is lower than the decline seen by the peer group. The agency believes competitive intensity among banks will remain high in the near term as they compete to accrete low-cost deposits. Axis's domestic deposits grew 12.8% yoy, largely through 20.5% yoy growth in term deposits, while CASA balances grew just 3.7% yoy in 1QFY25.

Moreover, the share of CASA and retail term deposits declined to 76.3% of the overall deposits in FY24 (FY23: 79.2%; FY22: 79.9%). This remains among the factors for increase in cost of funds to 5.44% in 1QFY25 (4QFY24:5.43%) from a low of 3.77% in 3QFY22, but still lower than 5.70% in 1QFY20. The bank continues to focus on increasing its CASA ratio further and improve the profile of deposits which should also aid the margins. Axis's concentration in deposits remains higher than its 'AAA' rated peers', with the top 20 depositors constituting 8.5% of the overall deposits in FY24 (FY23: 9.0%).

Stability in Operational Metrics: Over the past several years, Axis has demonstrated the ability to spot sector trends early on and introduce innovative products in the market. This, among other factors, has resulted in stable through-the-cycle profitability for the bank, as reflected in its strong operating buffers (pre-provisioning operating profit/provisions) of 9.1x in FY24 (FY23: 6.9x, FY22: 3.4x) driven by a healthy fee income profile. It has also maintained a stable net interest margin of above 4.0% (3QFY23 onwards) and is gradually benefitting from a continuous improvement in the operational leverage and growth in its scale of operations.

During 1QFY25, Axis reported 1.6% qoq growth in overall advances led by 5% qoq growth in corporate loans. During the same period sequential growth in the retail/Small and Medium Enterprise (SME) segment was 0.3% each. Growth in corporate side was mostly opportunistic and largely being on brownfield and working capital side. The franchise is comfortable in growing slowly and strives for higher risk adjusted return on capital. Axis's average ROA stood at 1.65% in 1QFY25 (FY24: 1.83%, FY23: 0.80%, FY22: 1.21%), as net credit costs sustain at or below Axis's long-term historical average of about 100bp. The inch up in the credit cost during 1QFY25 was due to the timing difference, seasonality, and accelerated provisioning norms for unsecured segment.

Stable Asset Quality Metrics, Slippages to Remain Monitorable: Since FY20, in addition to creating the COVID-19-related buffers, the bank has tightened its rule-based provisioning on unsecured retail assets, providing fully for outstanding security receipts, improved provision coverage sharply for the SME portfolio and is holding higher-than-required provisions against the assets restructured under the Reserve Bank of India's (RBI) one-time debt restructuring window. Furthermore, the overall PCR (ex-technical write-offs) stood at 78.1% in 1QFY25 (FY24: 78.5%, FY23: 80.9%). The bank's net non-performing asset-to-common equity tier-I (CET I) capital stood at 2.4% in 1QFY25 (FY24: 2.3%, FY23: 2.9%; FY22: 4.3%). The bank's focus on building a quality book also continues with incremental additions in higher-rated categories, resulting in an increased share of 'A-' and above to 89% of rated entities in 1QFY25 among the overall mix of the corporate and a similar movement in SME advances as well.

During 1QFY25, the net slippages ratio stood at 1.37%, higher than 0.50%-0.80% as observed in the four individual quarters of FY24. Around half of the increase in the net slippages during the quarter was due to lower recovery and upgrades in the wholesale segment and largely due to seasonality. A majority of recent slippages in 1QFY25 were retail, mostly unsecured, and Axis has already tightened the credit filters and accordingly reduced the loan growth to 0.3% qoq as compared with 2.1%-6.0% witnessed in the four individual quarters of FY24. Stress in retail segment remains largely contained with retail net non-performing assets (NNPA) of 0.48% with PCR of 65%. While 100% of personal loans and 78% of credit cards portfolio is towards the salaried segment, the delinquencies from unsecured segment will remain monitorable.

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), that provides 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 it continues to make investments in building up these capabilities. The contribution of the subsidiaries to the consolidated profitability remains constrained compared to those of comparable peers.

Liquidity

Adequate: Axis maintained a cumulative funding deficit of 6.8% in the up-to-one-year bucket as a percentage of the total assets at 1QFY25. It maintained 21.4% of its total assets in balances with the RBI and in government securities during 1QFY25 to meet its short-term funding requirements. In addition, the bank had a comfortable liquidity coverage ratio of 120% in 1QFY25, sufficiently above the regulatory requirement of 100%.

Rating Sensitivities

Positive: Not applicable.

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 the CET I falling and staying below 11.0% on a sustained basis, the net non-performing asset to CET I capital rising sharply higher than that of its peer group, a significant erosion of franchise – a 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 could 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.

About the Company

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 FYE24, the bank's net advances stood at INR9,650 billion. The bank had a pan-India presence with a network of 5,377 branches at FYE24.

Key Financial Indicators

Particulars (INR billion)	FY24	FY23
Total assets	14,772	13,173
Total equity	1,502	1,250
Net income	248.6	95.8
ROA (%)	1.83	0.80
CET-I (%)	13.74	14.02
Capital adequacy ratio (%)	16.63	17.64
Source: Axis, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	3 October 2023	6 December 2022	11 May 2022	12 May 2021
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Basel-III compliant Tier 2 bonds	Long-term	INR220	IND AAA/Stable	IND AAA/Stable	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	IND AA+/Stable	IND AA+/Stable
Infrastructure bonds	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	-	-
Fixed deposits	Long-term	-	IND AAA/Stable	IND AAA/Stable	-	-	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III AT1 bonds	High
Basel-III compliant Tier 2 bonds	Medium
Fixed deposits	Low
Infrastructure bonds	Low

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

Annexure

Instrument 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 Jun 2027	INR50	IND AAA/Stable

Basel-III compliant Tier 2 bonds	INE238A08484	13 December 2022	7.88	13 December 2032	INR120	IND AAA/Stable
Total utilised (Basel-III compliant Tier 2 bonds)					INR212.3	IND AAA/Stable
Total unutilised (Basel-III compliant Tier 2 bonds)					INR7.7	IND AAA/Stable
Total unutilised (Basel III AT1 bonds)					INR35	IND AA+/Stable
Total unutilised limits (infrastructure bonds)					INR100	IND AAA/Stable
Source: NSDL, Axis						

Contact

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is 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 AND POLICIES

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance