AXIS/CO/CS/348/2023-24

October 3, 2023

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 Fixed Deposits "IND AAA'/Stable and has affirmed other ratings.

The instrument wise rating action along with rationale letter dated October 3, 2023 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: 2023.10.03 19:03:51 +05'30'

Sandeep Poddar
Company Secretary

Encl.: As above

CC: London Stock Exchange
Singapore Stock Exchange

AXIS BANK
Legal & CS: Axis House, Wadia International Centre, Pandurang Budhkar marg, Worli, Mumbai 400 025
Registered Address: "Trishul" - 3rd Floor, Opp. Samartheswar Temple, Near Law Garden, Ellisbridge, Ahmedabad - 380006. Telephone No.: 079-26409322 Fax No.: 079-26409322
CIN : L65110GJ1993PLC020769 Website: www.axisbank.com

India Ratings & Research
A Fitch Group Company

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India Ratings Assigns Axis Bank's Fixed Deposits 'IND AAA'/ Stable; Affirms Other Ratings

Oct 03, 2023 | 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/Stable	Affirmed
Fixed deposits (FD)	-	-	-	-	IND AAA/Stable	Assigned
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

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 5.3% 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 45.5% at 1QFY24, the highest amongst its peer group.

APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Evaluating Corporate Governance

The Rating Process

Furthermore, the bank's existing capital buffers and the 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) would provide cushion against any near-term shocks. Further improvement in profitability on a sustained basis in line with the management targets and a successful integration of Citibank N.A.-India branch's (Citibank; 'IND A1+') retail franchise while keeping its customer and employee attrition to a minimum will be a key monitorable over the near term even as the initial signs are encouraging.

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, providing 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 (RBI) one-time debt restructuring window. Furthermore, the overall PCR (ex-technical write-offs) stood at 79.6% in 1QFY24 (FY23: 80.9%; FY22: 74.7%). The bank's net non-performing asset-to-common equity tier-I (CET I) capital stood at 3.0% in 1QFY24 (FY23: 3.0%; FY22: 5.0%). 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 rated entities in the overall mix of the corporate and a similar movement in SME advances as well.

Axis's average return on asset (ROA) improved further in FY23 to 1.82% (excluding exceptional items) (FY22: 1.2%; FY21: 0.7%), moving higher than its pre-FY17 average ROA of 1.6%-1.7%, as credit costs sustain at or below Axis's long-term historical average of about 110bp. Even the operating buffers (pre-provisioning operating profit/provisions) improved significantly in FY23 to 6.9x (FY22: 3.4x, FY21: 1.5x).

Adequate Capital Buffers Even after Completion of Citi Acquisition: In 1QFY24, Axis's CET-I capital was healthy at 14.38% and its total capital adequacy ratio at 17.74% (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 elevated levels of asset quality stress, should the need arise. Furthermore, with an overall provision coverage ratio of 79.6% in 1QFY24 and additional provisions (COVID-19 provisions and higher-than-regulatory standard asset provisions), Ind-Ra expects Axis to be in a comfortable position even when RBI rolls out the expected credit loss model for banks.

With the bank looking to outpace the banking system credit growth by 400-600bp along with the completion of the acquisition of Citibank's (India branch) retail franchise, the agency expects the bank to raise equity capital over the next couple of years. Strong internal accruals will partially offset the requirements on an immediate capital-raising even as the bank remains committed to operating with buffers at least 300-400bp over the minimum regulatory requirements for capital.

Liability Engine Performing Better: Axis's CASA ratio improved to 45.5% in 1QFY24 (FY23: 47.2%; FY22: 45.0%; FY21: 44.9%), with the CASA growing at 22.1% yoy, compared to the overall deposit growth of 17.2% yoy. The share of retail term deposits declined to 33.8% of overall deposits in 1QFY24 (FY23: 32.1%; FY22: 34.9%; FY21: 39.5%), with non-retail term deposits growing at 16.5% yoy in 1QFY24. The cost of funds increased to 5.03% in 1QFY24 from a low of 3.77% in 3QFY22, but still lower than 5.7% registered 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 9.0% of the overall deposits in FY23 (FY22: 10.1%).

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 Axis 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 Indicator – Adequate: Axis maintained a cumulative funding deficit of 5.3% in the up-to-one-year bucket as a percentage of the total assets at 4QFYE23. It maintained 20.9% of its total assets in balances with the RBI and in government securities during 4QFY23 to meet its short-term funding requirements. In addition, the bank had a comfortable liquidity coverage ratio of 123% in 1QFY24, sufficiently above the regulatory requirement of 100%.

Gap on Net Interest Margins with Peers Getting Bridged; Sustainability Will be Key: The gap between the bank's net interest margins and those of its ‘AAA’ rated peers reduced in FY23. Over the next two-to-three years, the management plans to calibrate levers on the deposit and asset side which will help in sustaining the performance and aid in bridging the gap further. The agency believes with a stable and experienced 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 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 the 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 FYE23, the bank’s net advances stood at INR8,453 billion. The bank had a pan-India presence with a network of 4,903 branches at FYE23.

FINANCIAL SUMMARY

Particulars (INR billion)	FY23	FY22
Total assets	13,173	11,754
Total equity	1,250	1,150
Net income	95.8	130.3
ROA (%)	0.80	1.21
CET-I (%)	14.02	15.24
Capital adequacy ratio (%)	17.64	18.54
Source: Axis, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

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				
	Rating Type	Rated Limits (billion)	Rating	6 December 2022	
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable/IND A1+	IN
Basel-III compliant Tier 2 bonds	Long-term	INR220	IND AAA/Stable	IND AAA/Stable	
Basel III AT1 bonds	Long-term	INR35	IND AA+/Stable	IND AA+/Stable	
Infrastructure bonds	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	
FDs	Long-term	-	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

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	
Total unutilised (Basel-III compliant Tier 2 bonds)					INR7.7	
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

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