AXIS/CO/CS/48/2020-21

1st May 2020

The Chief Manager, 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	The Senior General Manager – Listing Department 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.: FITCH 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 Fitch Ratings have on 30th April 2020, affirmed the Bank's Long-Term Issuer Default Rating (IDR) at 'BB+', with a Stable Outlook. Fitch Ratings has downgraded the Bank's Viability Rating to 'bb' from 'bb+'. The rating action letter by Fitch Ratings 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 VASUDEVAN KOLIYOTE

Digitally signed by GIRISH VASUDEVAN KOLIYOTE
Date: 2020.05.01 19:51:06 +05'30'

Girish V. Koliyote
Company Secretary

Encl.: as above

AXIS BANK

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Axis Bank's IDR at 'BB+', Outlook Stable; Downgrades VR to 'bb'

Thu 30 Apr, 2020 - 9:36 AM ET

Fitch Ratings - Singapore - 30 Apr 2020: Fitch Ratings has affirmed India-based Axis Bank's (Axis) Long-Term Issuer Default Rating (IDR) at 'BB+', with a Stable Outlook. The agency has also downgraded the bank's Viability Rating (VR) by one notch to 'bb' from 'bb+'. A full list of rating actions is at the end of this commentary.

The rating actions are driven by rapid deterioration in the operating environment for banks in India following the coronavirus pandemic and measures to contain its spread. See our commentary "Coronavirus Worsens Indian Banks' Already Weak Operating Conditions", published 26 March 2020 at https://www.fitchratings.com/site/pr/10115706.

Fitch has cut its forecast for India's GDP growth in the financial year ending March 2021 (FY21) to 0.8% from a pre-pandemic forecast of 5.1% (FY20: 4.9%). The revised estimate highlights the impact that the sharp slowdown in business and consumer activity is likely to have across sectors, which will create fresh asset-quality challenges for Indian banks. Fitch lowered the operating environment score for Indian banks to 'bb' from 'bb+' in March 2020 while keeping it on a negative outlook due to the uncertainty surrounding the severity and duration of the pandemic and the associated effects on India's banks from restrictions on economic activity. This is despite relief measures implemented by the authorities to support the economy and protect borrowers, which indirectly benefit the banks.

The downgrade of Axis's VR highlights heightened risks to its asset quality and earnings from the ongoing disruption in business and consumer activity, which we expect to continue well beyond the lockdown in India. Uncertainty about how severely key credit metrics will be affected and the potential for further negative impact on Axis's intrinsic creditworthiness mean there is a risk of further negative action on the VR. However, Axis's better income and capital buffers would support its VR longer than lower-rated peers with weaker loss-absorption buffers.

KEY RATING DRIVERS

IDR, SUPPORT RATING AND SUPPORT RATING FLOOR

Axis's IDR is driven by its Support Rating Floor (SRF) of 'BB+', which is anchored to its Support Rating of '3'. The SRF reflects Fitch's expectation that Axis has a moderate probability of receiving extraordinary state support, if required, due to its size and systemic importance. The likelihood of state support for Axis is lower than that of the large state banks (with SRF of BBB-) due to its private ownership, but similar to that of other large private banks.

Fitch believes that the sovereign's constrained finances and the large number of majority government-owned banks that are systemically important and have weak capitalisation means that these banks will have priority in terms of timeliness of government support. Nevertheless, the state has a track record of supporting systemically important banks, which we view Axis to be, although Axis has not required support in the past. The recent rescue of Yes Bank, which is a smaller private-sector bank, reinforces our view.

The Stable Outlook on the IDR mirrors the Stable Outlook on India's sovereign IDR and reflects our expectation of limited downside pressure on the IDR in the foreseeable future, provided the sovereign's ability and propensity to support the bank remains intact.

VIABILITY RATING

Axis's VR of 'bb' reflects a moderate degree of fundamental financial strength. The VR considers Axis's adequate franchise and stable funding, but is limited by the significant impact that the coronavirus containment measures and GDP slowdown will have on Axis's operations and its core credit metrics, particularly asset quality and earnings and profitability. Axis's financial profile could deteriorate further if the economic fallout from the coronavirus deepens and lingers. While Axis's better core capital and income buffers provide some headroom at the current VR, they could be vulnerable under high stress.

The bank's core equity Tier 1 (CET1) capital ratio rose to 13.3% by the end of the financial year to March 2020 (FYE20) from 11.3% at FYE19, as the bank benefited from the addition of fresh equity of USD1.7 billion in September 2019. The ratio is now slightly above Fitch's minimum threshold for a 'bb' score for capitalisation and leverage and reflects moderate buffers over the regulatory minimum amid heightened stress. Axis's loan loss cover of around 69% has improved, but it is only slightly above the sector average and results in a moderately high net impaired loans/equity ratio of 11% at FYE20.

Fitch expects asset quality to come under pressure due to the weakening operating environment. The impaired loan ratio is likely to increase due to lower growth and a sharp increase in net slippages. The impaired loan ratio improved slightly to 5.1% by FYE20 (FYE19: 5.3%), and compares well against lower rated state-owned banks. However, the ratio is well above Fitch's benchmarks for higher rated peers and above the threshold for banks with asset quality scores in the 'bb' category. Fitch expects loans to SMEs (9MFY20: 11% of loans) and retail customers (9MFY20: 53% of loans) to be more vulnerable in the immediate future. The bank, as with peers, had expanded in these segments in recent years, particularly in unsecured retail. Pressures in corporate lending are also expected to materialise as second-order effects of the slowdown start to appear on generally weak corporate balance sheets over FY21.

Risks in the retail book are somewhat cushioned due to the share of collateralised loans, such as home loans (36% of retail loans), and auto loans (13%), but risks can be pronounced in riskier segments, such as personal loans (12%), credit cards (5%), and other retail segments (34%, including loans against property) comprising small-business banking and rural lending. Industries like tourism, infrastructure (4.5% of funded exposure), auto (0.7%) and real estate (2.2%) would also be at risk, although corporate underwriting has been more cautious in recent years. Axis's exposure to non-banks is about 9% of loans, but risks are limited as these are mainly to government and entities backed by large corporates.

Fitch expects a weakening in earnings and profitability, driven by deteriorating asset quality. Operating profit/risk weighted assets declined to 0.80% in FY20 (FY19: 1.3%), driven by higher loan impairment charges (FYE20: 3.4% of loans) in anticipation of coronavirus-related pressures. However, the bank enjoys significantly better pre-impairment profit cushion (FY20: 4.4% of loans) than state banks, which makes the probability of capital erosion lower than for lower-rated peers.

Axis's VR also factors in its adequate franchise in retail banking, as well as a reasonably stable funding profile with low-cost deposit ratio of 41% at FYE20. However, funding for private-sector banks is generally more confidence-sensitive and could be vulnerable if the generally weak depositor sentiment, in the aftermath of Yes Bank's failure and worsening economic conditions, were to escalate into a depositor flight to safety.

SENIOR DEBT

Axis's senior debt ratings are being affirmed at 'BB+' in line with the IDR, as the debt represents the bank's unsecured and unsubordinated obligations.

ESG - Financial Transparency: Axis has an ESG Relevance Score of '4' for Financial Transparency. It reflects our assessment that the quality and frequency of financial reporting and the auditing process have a negative effect on the VR. These factors have become more prominent in the past few years because of the sharp financial deterioration at state banks as well as the wide reported divergences in NPL recognition between the banks and the regulator, including some observations on the bank's assumptions for its liquidity coverage ratio.

RATING SENSITIVITIES

IDRS, SUPPORT RATING, SUPPORT RATING FLOOR AND SENIOR DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The Support Rating and Support Rating Floor are most sensitive to the agency's assessment of the government's propensity and ability to extend timely support to the bank, based on its size and systemic importance. Should Fitch perceive any decline in such ability or propensity to provide support, the agency will could downgrade the Support Rating and/or Support Rating Floor, and in turn, the bank's IDRs, although that is not our base case. Nevertheless, there could be downside pressure to the IDR if we believe that the sovereign's ability and propensity to support the bank is weaker, which could be the case if the sovereign rating (BBB-/Stable) was downgraded.

There is limited downside risk to the IDR in the event of a downgrade in Axis's VR so long as the SRF remains unchanged, and providing that our assessment of the sovereign's ability and propensity to support the bank remains intact.

The senior debt ratings would be downgraded if the bank's Long-Term IDR were downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Axis's IDR is now driven by its SRF, which is above the VR. An improvement in the bank's VR beyond the SRF would lead to an equivalent increase in the IDR. However, we view such an upgrade is highly unlikely given the weak operating environment and subdued outlook. Similarly, a sovereign rating upgrade, which also appears unlikely in the near term, would also not lead to an upgrade in the bank's IDR unless a sovereign rating upgrade coincided with a strengthening of the sovereign's ability and more importantly, propensity to support the bank, in Fitch's view.

The senior debt ratings would be upgraded if the bank's Long-Term IDR were upgraded.

VIABILITY RATING

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Axis's VR could be downgraded if the economic environment deteriorates significantly beyond our base case scenario. Under this scenario, we would lower the operating environment score, which would result in a reduction of our assessment of most financial profile factors. In this scenario, the VR is most sensitive to changes in Axis's profitability, which is linked to asset quality performance and, in turn, would influence capitalisation levels.

The VR could be further downgraded if the impaired loan ratio approached 8%, which would put pressure on the bank's profitability and weaken the bank's moderate capital buffers (relative to our assessment of the operating environment) with CET1 ratio closer to or below 12%. If the bank were to face significant deposit outflow in a weakening operating environment, which would be evident in a liquidity coverage ratio below 100% or a sharp jump in loans/customer deposits, Fitch may review the bank's VR, although we do not view this as a high risk in the near term.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade to the VR is unlikely in the foreseeable future as risks to the bank's intrinsic profile from a weakening the operating environment are firmly on the downside. However, an upgrade could materialise only if the bank demonstrates a steady improvement in its impaired loan ratio to well below 5% while ensuring core capitalisation is well above 13% on a sustained basis.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

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.

ESG CONSIDERATIONS

ESG - Financial Transparency: Axis has an ESG Relevance Score of '4' for Financial Transparency. It reflects our assessment that the quality and frequency of financial reporting and the auditing process have an effect on the VR. These factors have become more prominent in the past few years because of the sharp financial deterioration at state banks as well as the wide reported divergences in NPL recognition between the banks and the regulator, including some observations on the bank's assumptions for its liquidity coverage ratio.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Axis Bank Limited	LT IDR	BB+	Affirmed
	ST IDR	B	Affirmed
	Viability	bb	Downgrade
	Support	3	Affirmed
	Support Floor	BB+	Affirmed
• senior unsecured	LT	BB+	Affirmed

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 29 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Axis Bank Limited	EU Endorsed

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Banks Asia-Pacific India