

AXIS/CO/CS/454/2021-22

November 30, 2021

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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 RATINGS ACTION.

REF.: REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015 ("LISTING REGULATIONS").

This is to inform you that, credit rating agency Fitch Ratings has affirmed Bank's Long-Term Issuer Default Rating (IDR) at 'BB+' with Negative Outlook and its Viability Rating (VR) at 'bb'. Fitch Ratings has also assigned the Bank a Government Support Rating (GSR) of 'bb+'.

The rating rationale letter of Fitch Ratings received by the Bank on November 29, 2021 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

Puneet Sharma
President & Chief Financial Officer
Encl.: as above

Cc: London Stock Exchange
Singapore Stock Exchange



RATING ACTION COMMENTARY

Fitch Affirms Axis Bank at 'BB+'; Outlook Negative

Mon 29 Nov, 2021 - 8:23 AM ET

Fitch Ratings - Singapore - 29 Nov 2021: Fitch Ratings has affirmed Axis Bank Limited's Long-Term Issuer Default Rating (IDR) at 'BB+'. The Outlook is Negative. The agency has also affirmed the bank's Viability Rating (VR) at 'bb'. In line with the updated Bank Rating Criteria, we have assigned Axis a Government Support Rating (GSR) of 'bb+'. A full list of rating actions is below.

Fitch recently revised the outlook on the operating environment (OE) for Indian banks to stable from negative, reflecting a better recovery than we expected in business and economic activity following a second wave of Covid-19 infections. The 'bb' OE score is higher than the implied score of 'b', reflecting our view that India's economy will generate sustainable business growth opportunities.

Economic growth and regulatory measures should support modest improvements in Indian banks' financial profiles over the next 12-24 months, even though challenges remain.

Fitch is withdrawing Axis' Support Rating and Support Rating Floor as they are no longer relevant to the agency's coverage following the publication of our updated Bank Rating Criteria on 12 November 2021.

KEY RATING DRIVERS

IDRS AND GOVERNMENT SUPPORT RATING

Axis' Long-Term IDR of 'BB+' is support driven and linked to India's sovereign rating (BBB-/Negative). It is driven by its GSR of 'bb+', which is higher than the VR. The GSR is one notch below the sovereign, and reflects Fitch's expectation that there is a moderate likelihood of extraordinary state support to Axis, if required. It is due to its size and systemic importance, which stems from its large and growing market share (5.1% of system assets and 4.6% of deposits at end-March 2020) and a sizeable retail deposit franchise. However, we regard the likelihood of support for Axis to be lower than for large state banks that have GSRs of 'bbb-' due to its private ownership, but to be similar to that of other large private banks.

Nevertheless, Axis is a systemically important bank in our view, and the state has a record of supporting such banks, although Axis has not required support in the past. The March 2020 rescue of Yes Bank Ltd, a mid-sized private-sector bank, reinforces our view.

The Negative Outlook on the Long-Term IDR mirrors the Outlook on the Indian sovereign IDR; see [Fitch Affirms India at 'BBB-'; Outlook Negative](#), published on 16 November 2021.

SENIOR DEBT

Axis' senior debt rating is at the same level as the Long-Term IDR, as the debt represents the bank's unsecured and unsubordinated obligations.

VIABILITY RATING

Axis' VR is the same as Fitch's implied VR. We view the VR to be stable as it incorporates some risk of deterioration in financial metrics (not our base case over the next two years), particularly asset quality beyond the financial year ending March 2023 (FY23). However, we

expect Axis' loss-absorption buffers to be able to withstand moderate shocks.

The VR also factors in Axis' business profile, which is scored 'bbb-', and its risk profile (bb). It reflects Fitch's view that Axis' wide reach, its diversified business model and well-capitalised balance sheet should enable the bank to further expand its strong domestic franchise, supporting profitable business and market share gains through the cycle.

Axis' capitalisation and leverage factor score is unchanged at 'bb', and the outlook is stable. It reflects Fitch's expectation that the bank's common equity Tier 1 (CET1) ratio would remain above 12% in the next two years, supported by improving internal accruals.

Axis' CET1 ratio of 15% is comparable with that of large private banks, with buffer of nearly 700bp over the regulatory minimum of 8%, as of end-1HFY22. The bank has good flexibility in accessing equity capital markets, although it does not enjoy the same capital fungibility as some of its peers. Nonetheless, fresh equity and improving loan-loss cover (1HFY22: 70%) have eased capital risks with net impaired loans/CET1 ratio dropping to 7.4% in end-1HFY22, compared with 26.9% at FYE18.

The full extent of Axis' exposure to special-mention loans and the non-guaranteed portion of emergency loans is less clear, but we do not expect capital buffers to fall below 12% under our base scenario, provided loan growth and risks from the vulnerable loan pool manifest as per Fitch's expectations.

The bank's asset-quality factor score is maintained at 'bb-', and the outlook is revised to stable from negative, to reflect our expectation that the four-year average core metric will trend below 5% within the next two years, supported by a stable operating environment and regulatory forbearance. Fitch believes that the bank's risk profile remains instrumental to financial performance, and particularly asset quality, over the medium to long term.

The impaired-loan ratio declined to 3.8% by end-1HFY22 from 4% at FYE21. It was accompanied by a drop in loan impairment charges/gross loans to 1.6% in 1HFY22, which was its lowest in several years but still well above the levels reported prior to FY16. We expect the impaired-loan ratio and loan impairment charges to decrease further in the near term as a reduction in bad loans (1HFY22: 1.9% of loans) continues to outpace fresh additions (1.8%). Asset quality and credit costs could face renewed pressures after FY23

when regulatory relief meaningfully unwinds, although the four-year average impaired-loan ratio will likely be commensurate with the factor score.

Axis' earnings and profitability factor score is maintained at 'bb', with a stable outlook to reflect Fitch's expectations that the four-year average operating profit/risk-weighted assets (OP/RWA) ratio will reach Fitch's 'bb' threshold of 1.25% by FY22 and remain above that level. Axis' OP/RWA improved to 2.2% in 1HFY22 from 1.4% in FY21. We do not see significant risks to earnings in the next one to two years, but believe that loan-impairment costs will be instrumental in driving OP/RWA, particularly when the forbearance unwinds.

Like other large banks in India, Axis' deposit franchise has proven resilient through difficult operating conditions, including the failure of Yes Bank in 2020. The bank's stable funding and liquidity profile benefits from its retail-oriented and local-currency dominated deposit franchise and wide reach. The bank's gross loans/customer deposits ratio of 87% has been trending down since FY15, but that could change in the near term as loan growth gains momentum. The bank's low-cost deposit ratio of 44% at end-1HFY22 compares well with that of peers while its stable liquidity position is reflected in its liquidity coverage ratio of 121% at end-1HFY22. We expect both variables to somewhat normalise over the medium term.

RATING SENSITIVITIES

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

IDRS, GOVERNMENT SUPPORT RATING AND SENIOR DEBT

We would downgrade the GSR, and, in turn, the bank's Long-Term IDR if we believe that the sovereign's ability to support the bank has weakened, which could be the case if the sovereign rating was downgraded. The IDR could also come under pressure if we believe the state's propensity to support the bank has weakened, even if India's sovereign rating remains unchanged, although this is not our base case.

There is limited downside risk to the IDR in the event of a VR downgrade, so long as the GSR remains unchanged, which would imply 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 was downgraded.

VIABILITY RATING

Axis' VR represents a moderate degree of financial strength. It should be reasonably stable in the near term, but could be downgraded if significant deterioration in the OE or a heightened risk profile were to become a more binding constraint on the bank's loss-absorption buffers.

This could manifest through a combination of weaker key financial metrics, assuming our assessment of the business profile remains unchanged:

- drop in Axis' CET1 ratio to well below 12%, irrespective of its better capital flexibility, without a credible plan to restore it to closer to 12%; alongside
- four-year average impaired loans ratio sustained well above 5%; and
- four-year average OP /RWA ratio sustained below 1.25%.

A lower business profile score for Axis - though not our base case - could also lead to a VR downgrade if it is also accompanied by the above-mentioned financial metrics being hit.

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

IDRS, GOVERNMENT SUPPORT RATING AND SENIOR DEBT

A revision of the sovereign rating Outlook to Stable would lead to a corresponding revision on the Outlook on Axis' Long-Term IDR, provided the sovereign's propensity to support the bank remains unchanged. An upgrade to Axis' GSR is possible in the event of a sovereign upgrade if it coincided with a strengthening of the sovereign's ability and, more importantly, propensity to support the bank. However, an upgrade of the sovereign rating appears less likely in the near term, considering the Negative Outlook.

An improvement in Axis' VR beyond its GSR would also lead to its IDR being aligned with the VR. However, such an upgrade will likely coincide with a higher OE score, implying that the OE is less of a binding constraint on the bank's financial profile.

VIABILITY RATING

We view Axis' VR as stable. However, an upgrade could still occur if the bank continues to improve upon its key core metrics on a sustained basis, provided this is accompanied by a significant improvement in the operating environment. It could manifest through a combination of stronger key financial metrics, such as:

- four-year average impaired loans ratio sustained well below 5%; alongside
- four-year OP /RWA ratio well exceeding 3%; and
- CET1 ratio maintained at or above current levels.

VR ADJUSTMENTS

The OE score of 'bb' has been assigned above the implied category of 'b' for the following adjustment reasons: Economic Performance, and Size and Structure of the Economy (positive).

The asset quality score of 'bb-' has been assigned above the implied category of 'b' for the following adjustment reason: Concentrations (positive).

The earnings & profitability score of 'bb' has been assigned above the implied category of 'b' for the following adjustment reason: Historical and Future metrics (positive).

The funding & liquidity score of 'bbb-' has been assigned above the implied category of 'bb' for the following reason: deposit structure (positive).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond 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

Axis Bank Limited has an ESG Relevance Score of '4' for Financial Transparency. It reflects our assessment of the quality and frequency of financial reporting and the auditing process, which has a moderate but negative influence on the credit profile, and is relevant to the rating in conjunction with other factors.

Occurrences of material divergence in asset-quality measures reported by the bank and regulators have reduced in recent years, but government and regulatory pandemic-related relief measures pose risk for the transparent recognition of impaired loans, even though we expect Axis to be reasonably better placed among peers. Still, financial transparency is viewed as pivotal for general business and depositor confidence and can lead to significant reputational risk if not managed well.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance 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 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 ↕			PRIOR ↕
Axis Bank Limited	LT IDR	BB+ Rating Outlook Negative	Affirmed	BB+ Rating Outlook Negative
	ST IDR	B Affirmed		B
	Viability	bb Affirmed		bb
	Support	WD Withdrawn		3
	Support Floor	WD Withdrawn		BB+
	Government Support	bb+ New Rating		
senior unsecured	LT	BB+ Affirmed		BB+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 13 Nov 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

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Axis Bank Limited

EU Endorsed, UK Endorsed

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Banks Asia-Pacific India
