February 19, 2021

Axis Bank Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Infrastructure Bonds/Debentures	22,205.00	22,205.00	[ICRA]AAA(Stable); reaffirmed
Basel III Complaint Tier II Bonds	16,350.00	16,350.00	[ICRA]AAA(hyb)(Stable); reaffirmed
Lower Tier II Bonds	5,925.00	5,925.00	[ICRA]AAA(hyb)(Stable); reaffirmed
Basel III Complaint Tier I Bonds	7,000.00	7,000.00	[ICRA]AA+(hyb)(Stable); reaffirmed
Certificates of Deposit	60,000.00	60,000.00	[ICRA]A1+; reaffirmed
Fixed Deposit	-	-	MAAA(Stable); reaffirmed
Total	**1,11,480.00**	**1,11,480.00**	

**Instrument details are provided in Annexure-1*

Rationale

The highest credit quality ratings assigned to Axis Bank Limited's debt instruments are supported by its strong capitalisation levels with the core equity capital (CET-I) at 15.36% as on December 31, 2020. This was supported by the equity capital raise in August 2020, resulting in a further improvement in the capital cushions over the regulatory requirements. The ratings continue to factor in Axis Bank's strong position in the Indian financial system as the third largest private bank with a 6.03% share in advances and a 4.66% share in the deposits of the banking system as on September 30, 2020.

The bank's liability profile continues to improve with the higher granularity of the deposits profile supported by the increasing share of retail term deposits (RTDs) and current account and savings account (CASA) deposits in total deposits. This has also supported the improvement in Axis Bank's liquidity profile with lower gaps in the maturity of assets and liabilities in the 1-year maturity buckets.

The asset quality pressure remains high with fresh gross slippages of ~2.5% (of standard advances and including the proforma slippages) in 9M FY2021 and remains a monitorable, given the uncertainty because of the Covid-19-induced stress. While, the impact of the Covid-19 pandemic on the loan portfolio is gradually emerging, the restructuring extended to borrowers has been limited and prudent provisions made by the bank at 2.05% of advances as on December 31, 2020. In ICRA's view, the bank appears to be well placed to absorb the residual stress through its operating portability and voluntary provisions while maintaining a strong capital position.

Despite the satisfactory operating profitability, Axis Bank's net profitability and return metrics (return on assets; RoA) have remained at sub-optimal levels due to elevated credit costs in the past and are likely to remain so in the current year. However, with reasonably large floating/prudent provisions and a high provision coverage ratio (PCR) of ~79% on the existing non-performing assets (NPAs) as on December 31, 2020, ICRA expects the RoA to improve to ~0.9-1.0% next year.

The Stable outlook on the ratings reflect ICRA's opinion that the bank will continue to maintain its strong capital and solvency position along with its strong position in the Indian banking sector with a consistent improvement in its customer franchise and an expected improvement in its profitability.

Key rating drivers and their description

Credit strengths

Strong position in financial services sector – Axis Bank is the third largest private bank and seventh largest bank in the overall Indian banking sector. Its share in advances in the banking sector credit has gradually increased to ~6.0% as on September 30, 2020 from 4.2% as on September 30, 2015. Furthermore, Axis Bank offers various financial services across asset management, securities broking, and investment banking through its subsidiaries. Additionally, the bank is awaiting final approval for acquiring a stake in Max Life Insurance Company Limited, which will increase its foothold in the insurance distribution business as well.

The bank's overall advances and deposits have largely remained above the sector average, thereby consistently improving its market position. The growth has been accompanied with an increasing share of retail assets, with the same rising to 55% of total advances as on December 31, 2020 (40% as on December 31, 2015) while the share of the corporate segment stood at 34% (47% as on December 31, 2015) and SME advances at 11% (13% as on December 31, 2015). ICRA expects that Axis Bank will continue to maintain a leading position in the Indian banking sector while maintaining the granularity of its assets and liabilities. The recent capital raises also place the bank in a position to improve its market positioning, subject to a broad-based recovery in credit demand.

Capital cushions improve on the back of capital raise – Axis Bank's capitalisation ratios improved following the capital raise of ~Rs. 10,000 crore (1.6% of risk-weighted assets (RWAs) as on June 30, 2020) in Q2 FY2021, which helped improve the CET-I to 15.36% as on December 31, 2020 from 14.33% as on December 31, 2019. Despite the sub-optimal internal capital generation, the bank's capital ratios were supported during the last four years by a large capital raise of Rs. 8,680 crore in December 2017, the conversion of share warrants of Rs. 2,563 crore in Q1 FY2020 and a qualified institutional placement (QIP) of Rs. 12,500 crore in Q2 FY2020. During the last two years, Axis Bank has built upon prudent asset provisions, which, coupled with the expected improvement in internal accruals from next year, shall support the capital profile without the frequent need to raise capital.

Credit challenges

Asset quality challenges could persist in the near term, although prudent provisions remain a source of comfort – The slippages (including standstill NPAs) for 9M FY2021 stood at Rs. 10,526 crore or 2.5% of standard advances (Rs. 19,915 crore or 4.12% in FY2020). Unlike the past trend of high corporate slippages, the slippages in 9M FY2021 were driven by retail loans because of the impact of Covid-19. However, high provisioning levels resulted in net NPAs of 1.19% as on December 31, 2020. Despite the impact of Covid-19, the guidance on restructured advances remains manageable at 0.42% of advances as on December 31, 2020. Apart from the reported net NPAs and restructured book, asset quality stress could emerge from the stressed exposures declared by the bank (companies rated BB and below), which stood at 1.5% of the gross customer assets as on December 31, 2020. Adjusted for the prudent provisions, the stressed assets as discussed above are estimated to be 10-12% of the core capital of the bank.

Amid the impact of Covid-19, the debt servicing of the borrowers has been supported by various relief measures including the reduction of interest rates, moratorium on debt servicing, loan restructuring and liquidity relief under the ECLGS[1]. Axis Bank has disbursed ~Rs. 8,875 crore of loans to its borrowers under the ECLGS, even though restructuring for the bank remains limited. The impact of Covid-19 on the debt servicing ability of borrowers is likely to emerge further over the next few quarters and hence remains a monitorable.

Profitability remains at sub-optimal levels although it is expected to improve – Axis Bank witnessed a strong growth in its operating income levels over the years, mainly on the back of strong loan book growth, despite being impacted by

[1] *Emergency credit line guarantee scheme*

interest reversals on high slippages. The net interest income (NII) has higher by 18% in 9M FY2021 at Rs. 21,684 crore compared to Rs. 18,398 crore in 9M FY2020. The growth was driven by the steady growth in net advances, the change in the book mix and the comparatively lower slippages in the current year. Additionally, the bank's non-interest income has remained robust, driven by the steadily increasing share of retail fees. While legacy asset quality related challenges have weighed down the net interest margins (NIMs) in the past, Axis Bank's operating profitability has remained satisfactory and largely absorbed the high credit costs. Consequently, its net profitability remained at sub-optimal levels. Axis Bank's RoA has remained <1% since FY2017. Accelerated provisions have helped shore up the PCR levels and provide comfort against future stress. Going forward, ICRA expects the bank's profitability to improve from the current levels if the economic environment improves meaningfully. While achieving an RoA of 1.0% in FY2021 will remain a challenge, the bank is expected to see an improvement in the same in FY2022.

Despite improvement in deposit granularity, CASA share remains lower than peer banks leading to higher cost of interest-bearing funds – Axis Bank continues to make efforts towards expanding its branch franchise with significant expansion in the network of 4,586 branches as on December 31, 2020. On the back of a growing franchise, the overall deposits grew by 11% on a YoY basis as on December 31, 2020 while CASA grew by ~16%. Despite these efforts, the share of lower-cost CASA deposits remains at 41-43%, which is comparatively lower than peer banks. In contrast, the growth in the RTD base was higher for the bank and the share of RTDs in total term deposits has increased appreciably to 76% as on December 31, 2020 from 69% as on December 31, 2019. While the deposit-mobilising strategy focused towards RTDs has improved deposit granularity and helped address asset-liability gaps, the overall cost of interest-bearing funds has remained relatively elevated in comparison to peer banks. Although the cost of interest-bearing funds for the bank moderated to 4.46% in 9M FY2021 from 5.00% in FY2020 due to a decline in interest rates, the differential with the private sector narrowed to ~13 bps compared to ~39 bps in FY2020 (~30 bps in FY2019).

Liquidity position: Strong

Axis Bank's daily average liquidity coverage ratio stood at 107% in Q3 FY2021 against the regulatory requirement of 100% from April 1, 2021 onwards. Also, there were no negative mismatches in the less than one-year maturity buckets for the bank as on September 30, 2020. Further, the excess statutory liquidity ratio (SLR) holding of the bank stood at ~7-8% of the net demand and time liabilities in Q3 FY2021 against the regulatory requirement of 18%. The excess SLR holding above the regulatory levels can be utilised to avail liquidity support from the Reserve Bank of India (RBI; through reverse repo) apart from the marginal standing facility of the RBI in case of urgent liquidity needs.

Rating sensitivities

Negative factors – Not applicable

Negative factors – ICRA could assign a Negative outlook or downgrade the ratings if there is a material weakening in the bank's liability franchise, thereby impacting its resource profile. This apart, a deterioration in the asset quality or capital position, leading to the weakening of the solvency profile with net NPA / CET of >15% on a sustained basis, could be a negative trigger. Further, a sustained RoA <1.0% and/or a decline in the capital cushions over the regulatory levels to less than 4% at the CET-I and Tier I levels on a sustained basis will remain negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Rating Methodology for Banks
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Axis Bank Limited. However, in line with ICRA's limited consolidation approach, the capital requirement of the key subsidiaries of the Group, going forward, has been factored in. In ICRA's view, Axis Bank's subsidiaries will largely remain self-sufficient in meeting their capital requirements in the near to medium term and the bank will continue to comfortably meet the regulatory capital requirements at the consolidated level

About the company

Incorporated in December 1993, Axis Bank Limited is a private sector bank. Its promoter group includes Life Insurance Corporation of India (LIC), Specified Undertaking of the Unit Trust of India (SUUTI), General Insurance Corporation of India, The New India Assurance Company Limited, National Insurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited, which collectively held 13.93% of the shares as on December 31, 2020 compared to 16.00% as on March 31, 2020 and 18.70% as on March 31, 2019.

As on December 31, 2020, the bank had the third largest network of branches among private sector banks with 4,586 branches and an international presence through branches in DIFC (Dubai), Singapore, Hong Kong, Colombo, Shanghai, representative offices in Abu Dhabi, Sharjah, Dhaka and Dubai, an offshore banking unit in GIFT City and an overseas subsidiary in the United Kingdom (UK).

For FY2020, Axis Bank reported a net profit of Rs. 1,627 crore on total assets of Rs. 9.15 lakh crore as on March 31, 2020 compared to a net profit of Rs. 4,677 crore in FY2019 on total assets of Rs. 8.01 lakh crore as on March 31, 2019. In 9M FY2021, the bank reported a net profit of Rs. 3,911 crore compared to a net profit of Rs. 3,015 crore in 9M FY2020. As on December 31, 2020, it reported capital adequacy of 19.31% (CET-I of 15.36% and Tier I of 16.48%).

Key financial indicators (standalone)

Axis Bank Limited		FY2019	FY2020	9M FY2020	9M FY2021
Net interest income	Rs. Crore	21,708	25,206	18,398	21,684
Profit before tax	Rs. Crore	6,974	4,904	6,783	5,236
Profit after tax	Rs. Crore	4,677	1,627	3,015	3,911
Net advances	Rs. Crore	4,94,798	5,71,424	5,50,138	5,82,754
Total assets	Rs. Crore	8,00,997	9,15,165	8,19,039	9,38,049
% CET	%	11.27%	13.34%	13.81%	15.36%
% Tier I	%	11.27%	13.34%	15.02%	16.48%
% CRAR	%	15.84%	17.53%	18.20%	19.31%
% Net interest margin / Average total assets	%	2.91%	2.94%	3.03%	3.12%
% Net profit / Average total assets	%	0.63%	0.19%	0.50%	0.56%
% Return on net worth	%	7.01%	1.92%	5.26%	5.68%
% Gross NPAs	%	5.80%	5.10%	5.29%	3.67%
% Net NPAs	%	2.28%	1.64%	2.21%	0.79%
% Provision coverage excl. technical write-offs	%	62%	69%	60%	79%
% Net NPA/ CET	%	23.3%	13.8%	7.2%	4.8%

Source: *Axis Bank Limited, ICRA research; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S No	Name of Instrument	Current Rating (FY2021)						Chronology of Rating History for the Past 3 Years								
		Type	Rated amount	Amount Outstanding	Feb 19,21	FY2020		FY2019			FY2018				
			(Rs. crore)	(Rs. crore)		Jan 23,2020	Sep 26,2019	Dec 27, 2018	Oct 10, 2018	Jun 29, 2018	Feb 23, 2018	Aug 1, 2017	Jun 21, 2017	Jun 14, 2017	Apr 21, 2017
1	Infrastructure Bonds/Debentures Programme	Long Term	22,505	16,705	[ICRA] AAA (Stable); reaffirmed	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
2	Certificates of Deposit Programme	Short Term	60,000	-	[ICRA] A1+: reaffirmed	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
3	Basel III Compliant Tier I Bonds Programme	Long Term	7,000	7,000	[ICRA] AA+ (hyb) (Stable): reaffirmed	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)	[ICRA] AA+ (hyb) (Stable)
4	Basel III Compliant Tier II Bonds Programme	Long Term	16,350	11,580	[ICRA] AAA (hyb): reaffirmed (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)	[ICRA] AAA (hyb) (Stable)
5	Lower Tier II Bonds Programme	Long Term	5,925	5,925	[ICRA] AAA (Stable): reaffirmed	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
6	Fixed Deposit Programme	Medium Term	-	-	MAAA (Stable): reaffirmed	MAAA (Stable)	MAAA (Stable)	-	-	-	-	-	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Basel III Tier II Bonds	Yet to be placed			4,000	[ICRA]AAA(hyb)(stable)
INE238A08443	Basel III Tier I Bonds	28-Jun-2017	8.75%	Perpetual^	3,500	[ICRA]AA+(hyb)(stable)
INE238A08427	Basel III Tier I Bonds	14-Dec-2016	8.75%	Perpetual$	3,500	[ICRA]AA+(hyb)(stable)
NA	Basel III Tier II Bonds	Yet to be placed			770	[ICRA]AAA(hyb)(stable)
INE238A08435	Basel III Tier II Bonds	15-Jun-2017	7.66%	15-Jun-2027	5,000	[ICRA]AAA(hyb)(stable)
INE238A08369	Basel III Tier II Bonds	12-Feb-2015	8.45%	12-Feb-2025	850	[ICRA]AAA(hyb)(stable)
INE238A08377	Basel III Tier II Bonds	30-Sep-2015	8.50%	30-Sep-2025	1,500	[ICRA]AAA(hyb)(stable)
INE238A08393	Basel III Tier II Bonds	27-May-2016	8.50%	27-May-2026	2,430	[ICRA]AAA(hyb)(stable)
INE238A08419	Basel III Tier II Bonds	23-Nov-2016	7.84%	23-Nov-2026	1,800	[ICRA]AAA(hyb)(stable)
NA	Infrastructure Bonds	Yet to be placed			500	[ICRA]AAA(stable)
INE238A08450	Infrastructure Bonds	28-Dec-2018	8.60%	28-Dec-2028	3,000	[ICRA]AAA(stable)
INE238A08351	Infrastructure Bonds	05-Dec-2014	8.85%	05-Dec-2024	5,705	[ICRA]AAA(stable)
INE238A08385	Infrastructure Bonds	30-Oct-2015	8.25%	30-Oct-2025	3,000	[ICRA]AAA(stable)
INE238A08401	Infrastructure Bonds	20-Oct-2016	7.60%	20-Oct-2023	5,000	[ICRA]AAA(stable)
NA	Infrastructure Bonds	Yet to be placed			825	[ICRA]AAA(stable)
INE238A08468	Infrastructure Bonds	30-Jan-2020	7.65%	30-Jan-2027	4,175	[ICRA]AAA(stable)
INE238A08328	Lower Tier II Bonds	01-Dec-2011	9.73%	01-Dec-2021	1,500	[ICRA]AAA(stable)
INE238A08336	Lower Tier II Bonds	20-Mar-2012	9.30%	20-Mar-2022	1,925	[ICRA]AAA(stable)
INE238A08344	Lower Tier II Bonds	31-Dec-2012	9.15%	31-Dec-2022	2,500	[ICRA]AAA(stable)
NA	Certificates of Deposit	-	-	7-365 days	60,000	[ICRA]A1+
NA	Fixed Deposit	-	-	-	-	MAAA(Stable)

Source: *Axis Bank Limited ^ Call option: Jun-28-2022 $ Call option: Dec-14-2021*

Key features of rated debt instruments

The servicing of the Basel II Lower Tier II Bonds and infrastructure bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II Bonds are expected to absorb losses once the point of non-viability (PONV) trigger is breached in the RBI's opinion. The letters 'hyb' in parenthesis, suffixed to a rating symbol, stand for hybrid, indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

The rating for the Basel III Compliant Additional Tier-I (AT-I) Bonds is one notch lower than the rating for the Basel III Compliant Tier II Bonds of Axis Bank as these instruments have the following loss-absorption features that make them riskier.

- The coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel the same. The cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year's profits. However, if the current year's profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses created through the appropriation of profits (including statutory reserves). However, the coupon payment is subject to the bank meeting the minimum regulatory requirements for common equity tier I (CET-I), Tier I and total capital ratios (including capital conservation buffer, CCB) at all times, as prescribed by the RBI under Basel III regulations.

These AT-I bonds are expected to absorb losses through a write-down mechanism at the objective pre-specified trigger point fixed at the bank's CET-I ratio as prescribed by the RBI, 5.5% till September 30, 2021, and thereafter 6.125% of the total RWAs of the bank or when the PONV trigger is breached in the RBI's opinion.

The distributable reserves[2] that can be used for servicing the coupon in a situation of inadequate profits or a loss during the year, stood at a comfortable 7.0% of the RWAs as on December 31, 2020. The rating on the Tier I bonds continues to be supported by the bank's sound capitalisation profile and the expectation of improved profitability going forward.

Annexure-2: List of entities considered for limited consolidated analysis

Company Name	Axis Bank Ownership	Consolidation Approach
Axis Capital Limited	100%	Limited Consolidation
Axis Private Equity Limited	100%	Limited Consolidation
Axis Trustee Services Limited	100%	Limited Consolidation
Axis Mutual Fund Trustee Limited	75%	Limited Consolidation
Axis Asset Management Company Limited	75%	Limited Consolidation
Axis Bank UK Ltd	100%	Limited Consolidation
Axis Finance Limited	100%	Limited Consolidation
Axis Securities Limited	100%	Limited Consolidation
A.Treds Ltd	67%	Limited Consolidation
Freecharge Payment Technologies Pvt Ltd	100%	Limited Consolidation
Accelyst solutions Private Limited	100%	Limited Consolidation

[2] *As defined in RBI circular*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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