April 07, 2022

Axis Bank Limited – Update on Entity

Summary of rating outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Infrastructure Bonds/Debentures	29,705.00	29,705.00	[ICRA]AAA (Stable)
Basel III Compliant Tier II Bonds	16,350.00	16,350.00	[ICRA]AAA (Stable)
Lower Tier II Bonds	4,425.00	4,425.00	[ICRA]AAA (Stable)
Basel III Compliant Tier I Bonds	9,500.00	9,500.00	[ICRA]AA+ (Stable)
Certificates of Deposit	60,000.00	60,000.00	[ICRA]A1+
Fixed Deposit	-	-	MAAA (Stable)
Total	**1,19,980.00**	**1,19,980.00**	

**Instrument details are provided in Annexure-1*

Rationale

In a meeting held on March 30, 2022, Axis Bank Limited's board of directors considered and approved the purchase of Citibank's Indian consumer business from Citibank N.A. (Indian branches of Citibank) and Citicorp Finance (India) Limited (CFIL – [ICRA]AAA (Stable)/[ICRA]A1+). Subject to regulatory approvals, the acquisition is expected to be concluded in the next 9-12 months.

Axis Bank plans to acquire ~Rs. 50,200-crore assets (including advances of Rs. 27,400 crore) and deposits of an equivalent amount for a total consideration of Rs. 12,325 crore. The advances and deposits to be acquired are equivalent to ~4% of Axis Banks net advances and ~7% of the total deposits outstanding as on December 31, 2021, while the purchase consideration amounts to ~12% of the core capital of Axis Bank as on December 31, 2021. As per the terms of the agreement, Axis Bank is contractually protected, by way of a downward revision in the consideration, if customer attrition (till the closure of the deal) is higher than the levels already factored into the price at which the assets have been agreed to be acquired. In such a scenario, the final deal value as well as the assets/liabilities taken over by Axis Bank may differ from the aforementioned values.

ICRA takes note of the acquisition approved by Axis Bank and the ratings remain unchanged.

Capitalisation levels to moderate from current levels but remain better than the negative rating triggers: Axis Bank is likely to recognise the consideration paid as goodwill and write off the same when the acquisition is completed. This is expected to lead to a moderation in the capitalisation levels by ~180 bps[1]. In addition, there will be a ~50-bps capital charge representing the risk-adjusted value of the assets acquired by the bank. In ICRA's view, despite the one-time impact on account of the acquisition, the overall capital cushions above the regulatory levels are expected to remain better than our negative rating trigger of 4%. Moreover, given the expectation of a steady improvement in profitability with an improvement in the operating environment, we expect the bank's internal capital generation to support the near-to-medium-term growth. This will be key for preventing any material consumption of capital.

However, Axis Bank may consider raising growth capital over the medium term. Additionally, the bank continues to hold large prudent/floating provisions (~Rs. 5,012 crore (0.7% of RWA) as on December 31, 2021), which remains a source of comfort. With the write-off of goodwill, the return on assets (RoA) may moderate to a level below our negative trigger (RoA <1%). Excluding this extraordinary item, the bank's core RoA is expected to be strong. Axis Bank's solvency (net non-performing advances/core capital) profile is also likely to remain better than the negative trigger of 15%.

[1] *Based on Axis Bank's risk-weighted assets (RWA) and capital position as on December 31, 2021*

Ability to retain and expand incoming customer franchise will be key to success of the transaction: Axis Bank plans to acquire consumer/retail advances of Rs. 27,400 crore, comprising credit cards (~Rs. 8,900 crore), mortgages (~Rs. 10,000 crore), the asset-backed financing portfolio (~Rs. 5,200 crore) and small business and personal loans (~Rs. 3,300 crore). Similarly, it has identified deposits totalling ~Rs. 50,200 crore, mainly comprising current and savings account (CASA) deposits (~81% as on June 30, 2021), which, on a combined basis, is expected to lead to an improvement in its overall CASA ratio by up to 200 bps from the current level to ~47%. Additionally, the bank will be adding customers from the private and wealth banking segments of Citibank to its own captive wealth management segment 'Burgundy', which will help grow its fees over time. In ICRA's view, the acquisition will help grow Axis Bank's granular asset and liabilities, while also offering cross-selling opportunities over time. However, the bank's ability to retain and expand the incoming employee and customer base will be important to achieve meaningful synergy following the conclusion of the acquisition.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities, and key financial indicators: **Click here**

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. 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) and Specified Undertaking of the Unit Trust of India (SUUTI), which collectively held 9.5% of the shares as on December 31, 2021. As on December 31, 2021, Axis Bank had the third largest network of branches among private sector banks with 4,700 branches and an international presence through branches in DIFC (Dubai) and Singapore and representative offices in Abu Dhabi, Sharjah, Dhaka and Dubai and an offshore banking unit in GIFT City.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Name of Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding^ (Rs. crore)	Date & Rating in FY2023 Apr 7, 2022	FY2022 Dec 15, 2021	FY2021 Feb 19, 2021	FY2020 Jan 23, 2020	FY2020 Sep 26, 2019
1	Infrastructure Bonds/Debentures	Long Term	29,705	23,480^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Certificates of Deposit Programme	Short Term	60,000	49,445	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Basel III Compliant Tier I Bond Programme	Long Term	9,500*	3,500	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (hyb)(Stable)	[ICRA]AA+ (hyb)(Stable)	[ICRA]AA+ (hyb)(Stable)
4	Basel III Compliant Tier II Bond Programme	Long Term	16,350	11,580#	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (hyb) (Stable)	[ICRA]AAA (hyb) (Stable)	[ICRA]AAA (hyb) (Stable)
5	Lower Tier II Bond Programme	Long Term	4,425	4,425	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	Fixed Deposit Programme	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

^ Outstanding as on April 4, 2022, Call option exercised on Rs.3,500 crore AT-I bond on December 14, 2021, to be withdrawn*

 # Balance yet to be placed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Infrastructure Bond/Debenture Programme	Very Simple
Basel II Lower Tier II Bond Programme	Simple
Basel III Tier II Bond Programme	Highly Complex
Basel III Additional Tier I Bond Programme	Highly Complex
Certificates of Deposit	Very Simple
Fixed Deposits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	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			4,770	[ICRA]AAA (Stable)
INE238A08443	Basel III Tier I Bonds	June 28, 2017	8.75%	Perpetual^	3,500	[ICRA]AA+ (Stable)
INE238A08427	Basel III Tier I Bonds	December 14, 2016	8.75%	Perpetual$	3,500	[ICRA]AA+ (Stable)
NA	Basel III Tier I Bonds	Yet to be placed			2,500	[ICRA]AA+ (Stable)
INE238A08435	Basel III Tier II Bonds	June 15, 2017	7.66%	June 15, 2027	5,000	[ICRA]AAA (Stable)
INE238A08369	Basel III Tier II Bonds	February 12, 2015	8.45%	February 12, 2025	850	[ICRA]AAA (Stable)
INE238A08377	Basel III Tier II Bonds	September 30, 2015	8.50%	September 30, 2025	1,500	[ICRA]AAA (Stable)
INE238A08393	Basel III Tier II Bonds	May 27, 2016	8.50%	May 27, 2026	2,430	[ICRA]AAA (Stable)
INE238A08419	Basel III Tier II Bonds	November 23, 2016	7.84%	November 23, 2026	1,800	[ICRA]AAA (Stable)
INE238A08450	Infrastructure Bonds	December 28, 2018	8.60%	December 28, 2028	3,000	[ICRA]AAA (Stable)
INE238A08351	Infrastructure Bonds	December 5, 2014	8.85%	December 5, 2024	5,705	[ICRA]AAA (Stable)
INE238A08385	Infrastructure Bonds	October 30, 2015	8.25%	October 30, 2025	3,000	[ICRA]AAA (Stable)
INE238A08401	Infrastructure Bonds	October 20, 2016	7.60%	October 20, 2023	5,000	[ICRA]AAA (Stable)
INE238A08468	Infrastructure Bonds	January 30, 2020	7.65%	January 30, 2027	4,175	[ICRA]AAA (Stable)
INE238A08476	Infrastructure Bonds	December 22, 2021	6.99%	December 22, 2031	2,600	[ICRA]AAA (Stable)
NA	Infrastructure Bonds	Yet to be placed			6,225	[ICRA]AAA (Stable)
INE238A08336	Lower Tier II Bonds	March 20, 2012	9.30%	March 20, 2022	1,925	[ICRA]AAA (Stable)
INE238A08344	Lower Tier II Bonds	December 31, 2012	9.15%	December 31, 2022	2,500	[ICRA]AAA (Stable)
NA	Fixed Deposit	-	-	-	-	MAAA (Stable)
NA	Certificates of Deposit	Yet to be placed		7-365 days	10,555	[ICRA]A1+
INE238A160X0	Certificates of Deposit	November 24, 2021	4.40%	September 19, 2022	2,000	[ICRA]A1+
INE238A160Y8	Certificates of Deposit	December 23, 2021	4.30%	May 2, 2022	2,325	[ICRA]A1+
INE238A160Z5	Certificates of Deposit	March 7, 2022	4.65%	September 5, 2022	675	[ICRA]A1+
INE238A161W0	Certificates of Deposit	May 14, 2021	4.18%	May 13, 2022	1,750	[ICRA]A1+
INE238A161X8	Certificates of Deposit	November 23, 2021	4.40%	September 20, 2022	1,850	[ICRA]A1+
INE238A161Y6	Certificates of Deposit	January 3, 2022	4.20%	June 20, 2022	2,000	[ICRA]A1+
INE238A161Z3	Certificates of Deposit	March 17, 2022	4.92%	March 7, 2023	2,300	[ICRA]A1+
INE238A162W8	Certificates of Deposit	May 14, 2021	4.18%	May 11, 2022	1,750	[ICRA]A1+
INE238A162X6	Certificates of Deposit	November 25, 2021	4.18%	June 17, 2022	475	[ICRA]A1+
INE238A162Y4	Certificates of Deposit	January 14, 2022	4.60%	November 9, 2022	1,275	[ICRA]A1+
INE238A162Z1	Certificates of Deposit	March 17, 2022	4.92%	March 8, 2023	1,750	[ICRA]A1+
INE238A163X4	Certificates of Deposit	November 25, 2021	4.18%	June 15, 2022	2,350	[ICRA]A1+
INE238A163Y2	Certificates of Deposit	January 14, 2022	4.60%	November 10, 2022	1,625	[ICRA]A1+
INE238A163Z9	Certificates of Deposit	March 17, 2022	4.92%	March 9, 2023	200	[ICRA]A1+
INE238A164X2	Certificates of Deposit	November 25, 2021	4.18%	June 16, 2022	1,305	[ICRA]A1+
INE238A164Y0	Certificates of Deposit	January 14, 2022	4.60%	November 11, 2022	2,400	[ICRA]A1+

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE238A165X9	Certificates of Deposit	December 10, 2021	4.57%	December 7, 2022	2,000	[ICRA]A1+
INE238A165Y7	Certificates of Deposit	February 11, 2022	4.90%	February 10, 2023	2,500	[ICRA]A1+
INE238A166X7	Certificates of Deposit	December 10, 2021	4.57%	December 9, 2022	1,550	[ICRA]A1+
INE238A166Y5	Certificates of Deposit	February 22, 2022	4.40%	August 10, 2022	1,725	[ICRA]A1+
INE238A167W7	Certificates of Deposit	July 5, 2021	4.15%	April 28, 2022	1,700	[ICRA]A1+
INE238A167X5	Certificates of Deposit	December 10, 2021	4.57%	December 8, 2022	1,775	[ICRA]A1+
INE238A167Y3	Certificates of Deposit	March 3, 2022	4.95%	March 3, 2023	675	[ICRA]A1+
INE238A168W5	Certificates of Deposit	July 5, 2021	4.15%	April 27, 2022	1,600	[ICRA]A1+
INE238A168X3	Certificates of Deposit	December 23, 2021	4.30%	May 6, 2022	1,950	[ICRA]A1+
INE238A168Y1	Certificates of Deposit	March 7, 2022	4.65%	August 25, 2022	2,100	[ICRA]A1+
INE238A169W3	Certificates of Deposit	November 16, 2021	4.40%	November 16, 2022	1,650	[ICRA]A1+
INE238A169X1	Certificates of Deposit	December 23, 2021	4.30%	May 9, 2022	650	[ICRA]A1+
INE238A169Y9	Certificates of Deposit	March 7, 2022	4.65%	August 29, 2022	3,540	[ICRA]A1+

Source: *Axis Bank; ^ Call option due on June 28, 2022; $ Call option exercised on December 14, 2021, to be withdrawn*

Key features of the rated 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 Reserve Bank of India's (RBI) opinion. The rated Basel III Tier I (AT-I) and Basel III Tier II instruments are hybrid subordinated debt instruments 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 Bonds is one notch lower than the rating for the Basel III Compliant Tier II Bonds 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 the 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 Tier I bonds are expected to absorb losses through the write-down mechanism at the objective prespecified trigger point fixed at the bank's (CET-I) ratio as prescribed by the RBI, i.e. 6.125% of the total RWAs (w.e.f. October 1, 2021) 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 8.3% of RWAs as on September 30, 2021. The rating on the Tier I bonds continues to be supported by the bank's sound capitalisation profile and expectations 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 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
Axis Capital USA LLC	100%	Limited Consolidation
Max Life Insurance Company Limited	10%	Limited Consolidation

Source: Axis Bank

[2] *As defined in RBI circular*

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