

Axis Bank Limited (Revised)

September 6, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Infrastructure Bonds	5,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Infrastructure Bonds	3,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II	1,800.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II	1,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II	1,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II	1,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier II Bonds	3,350.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Instruments	19,650.00 (Rs. Nineteen Thousand Six Hundred Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Detailed Rationale & Key Rating Drivers

The ratings assigned to various debt instruments of Axis Bank Limited (ABL) factor in the bank's long track record of operations with strong market position as one of the largest private sector banks in the country, strong established franchise and branch network, strong capitalisation levels supported by sizeable amount of equity capital raised during the last two years demonstrating the ability of the bank to raise capital, experienced management team and diversified resource profile led by healthy Current Account Savings Account (CASA) deposit mix and comfortable liquidity profile.

The ratings also factor in the bank's shift of focus shift towards retail lending over the last three years adding to more granularity to the advances book.

The ratings, further, factor in the improvement in the bank's asset quality parameters as reflected by decrease in its Gross NPAs over the last three years supported by lower amount of slippages especially in the corporate lending book as well as write-offs in spite of increase in slippages during Q1FY22 (refers to period from April 01 to June 30) due to impact of the second Covid-19 wave.

The ratings also continue to factor in the bank's moderate profitability on account of higher credit costs which remain at elevated levels in the background of likely impact of Covid-19 pandemic.

Rating sensitivities –

Positive Factors: Factors that could lead to positive rating action/upgrade: Not applicable

Negative Factors: Factors that could lead to negative rating action/downgrade

- Deterioration in asset quality parameters – In the event of Net NPA ratio increasing to more than 5.50%
- Decline in capitalization levels with CAR below 13.5% or CET I below 10%
- Deterioration in profitability parameters on a continued basis

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Detailed description of the key rating drivers

Key Rating Strengths

Strong market position established franchise with branch network and strong track record with shift towards retail lending

ABL is third largest bank in the private sector banking space with total assets size of Rs.9,88,599 crore (adjusted for deferred tax assets and intangible assets) as on March 31, 2021, registering a 13.47% CAGR over 5 years ended FY21. The bank has established a robust franchise having pan-India presence through a network of 4,594 domestic branches and extension counters and 17,043 ATMs and cash recyclers spread across the country as on June 30, 2020. Further, the Bank also has its overseas presence spread across eight international offices with branches at Singapore, Dubai (at the DIFC) and Gift City-IBU; representative offices at Dhaka, Dubai, Abu Dhabi and Sharjah.

The bank's advances (net) stood at Rs.6,14,874 crore as on June 30, 2021 while its deposit stood at Rs.7,13,862 crore. Over the last few years, the bank has shifted focus towards retail lending in order to increase the granularity in the advances portfolio and maintain better asset quality. The proportion of retail lending (~80% of the book being secured) has increased over the last few years and constituted 53.63% as on March 31, 2021 as compared to 47% proportion of retail lending as on March 31, 2018. Under the retail segment, housing loans constituted the major segment constituting 37% of total retail book, followed by vehicle loans (12%), rural lending (12%) and personal loans (12%) as on June 30, 2021.

Strong capitalization levels and demonstrated resource raising ability

The bank has maintained healthy capitalization levels and demonstrated strong capital ability to raise capital to fund growth and maintain cushion over minimum regulatory requirement as well as strong ability to raise resource by way of deposits and bonds.

Earlier in FY20, the bank raised equity capital of Rs.2,563 crore by way of conversion of warrants and Rs.12,500 crore by way of QIP of equity shares during FY20. The main objective of capital rising is to further strengthen the Bank's CET 1 ratio and to ensure that the Bank is well placed to deal with COVID impact on business from a position of strength, while ensuring that there is adequate capital to support its growth as the economy revives. Further, to enhance the bank's ability to absorb any loss or incremental credit costs, the bank raised additional equity capital of Rs.10,000 crore (Rs.9,963.02 crore net of share issue expenses) by way of Qualified Institutional Placement (QIP) of equity shares during FY21 demonstrating strong ability to raise equity capital.

As a result of the capital raise and accretion of profit, the bank's tangible net worth increased to Rs.94,083 crore as on March 31, 2021. The bank reported Capital Adequacy Ratio (CAR) of 19.12% (P.Y.:17.53%) and Tier I CAR of 17.47% (P.Y.:14.49%) with Common Equity Tier I (CET I) Ratio of 15.40% (P.Y.:13.34%) as on March 31, 2021 which was comfortably above the minimum capital required (CAR) to be maintained by the bank for the year ended March 31, 2021.

As on June 30, 2020, the bank's capitalisation levels continued to remain comfortable with CAR at 19.01% and Tier I CAR at 16.48% (including Q1FY22 profit) with CET I Ratio of 15.42% providing the bank enough cushion to absorb any unforeseen losses in future.

Experienced management team

ABL has an experienced senior management team and its Board of Directors headed by Mr. Rakesh Makhija (appointed as Non Executive (part time) Chairman with effect from July 18, 2019 for a period of three years) who has a wide experience in various sectors. Prior to that he was the MD of SKF India from 2002 till 2009. The operations of the bank are headed by Mr. Amitabh Chaudhary who was appointed as the Managing Director and Chief Executive Officer (MD & CEO) with effect from January 01, 2019 for a period of 3 years, prior to that he was a Managing Director (MD) and Chief Executive Officer (CEO) at HDFC Life Insurance Company Limited. Further, in April 2021, the tenure of Mr Amitabh Chaudhary has extended for next three years effective from January 01, 2022. Further, the top management team includes two Executive Directors (ED) Mr. Rajesh Dahiya (ED – Corporate Centre) and Mr. Rajiv Anand (ED – Wholesale Banking) who have extensive experience in the banking field. Further, Mr Ravi Narayanan (Group executive - Retail Liabilities and Branch Banking) and Mr. Sumit Bali (President – Retail Lending and Payments) look after respective divisions and have vast experience in banking sector.

Strong liability franchise and diversified resource profile with comfortable liquidity profile

ABL's total deposits grew by 10.50% and stood at Rs.7,07,306 crore as on March 31, 2021. The bank has a sizeable CASA deposit base which constituted around 44.92% (P.Y.: 41.20%) of total deposits as on March 31, 2021. The bank saw its Savings Account deposits grow by 17.79% y-o-y while Current Account deposits increased by 25.70% over last financial year. The bank's term deposits increased by 3.50% during the year. During FY21, the bank has also focused on retail term deposit

which has increased by 12% and constitute 73% of the total term deposit in FY21 as against 67% in FY20. Due to it, retail term deposit along with CASA deposit 85% of total deposit as on March 31, 2021 as against 81% as on March 31, 2020.

ABL's asset liability maturity (ALM) profile as of June 30, 2021, had negative cumulative mismatches in 6 month to 1 year. However, the mismatches were within the tolerance limits of ABL. Further, the bank's healthy deposit franchise with established CASA base and excess SLR maintained by ABL (Rs.57,915 crore as on March 31, 2021) provides comfort. In addition, ABL has been increasing the proportion of retail deposits gradually.

Key Rating Weakness

Moderate asset quality

The bank reported Gross NPA ratio of 3.70% and Net NPA ratio of 1.05% as on March 31, 2021 as compared to Gross NPA ratio of 4.86% and Net NPA ratio of 1.56% as on March 31, 2020. During FY21, slippage has decreased from Rs.19,915 crore in FY20 to Rs.17,247 crore with corporate book has lower slippage as against retail. Provision coverage of the bank has improved and stood at 88% including prudential write off and 72% excluding prudential write off. Its accumulated prudential write off pool stood at Rs.31,856 crore as on March 31, 2021.

BB and below rated accounts (excluding investments and non-fund based exposure) has increased and stood at Rs.7,443 crores as on March 31, 2021 as compared to Rs.6,528 crores as on March 31, 2020. It has downgraded all COVID -19 restructured corporate loan accounts to BB and below. The aggregate outstanding of BB and below rated investments and non-fund based accounts stood at Rs.666 crore and Rs.4,574 crores respectively as at the end of March 2021.

As on June 30, 2021, the bank reported Gross NPA ratio of 3.85% and Net NPA ratio of 1.20% with Net NPA to Net worth ratio of 8.13%.

The standard restructured loans under resolution framework for COVID-19 related stress as at June 30, 2021 stood at Rs.2,192 crores that translates to 0.33% of the gross customer assets. The Bank carries a provision of around 23% on restructured loans, which is in excess of regulatory limits.

Moderate financial performance

During FY21, the bank's advances grew by 9.15% while deposits grew by 10.50%. Interest income as a percentage of average interest earning assets has decreased to 7.99% IN FY21 as against 8.74% in FY20 on account of decrease in repo rate which led to decrease in funding cost of the industry and consequently decline in lending rates. The interest expenses as a percentage of average interest bearing liabilities has also declined to 4.20% in FY21 from 5.03% in FY20 on account of its continuous focus on CASA as well as infusion of capital. The higher decline in interest cost has led to improvement in NIM which stood at 3.08% in FY21 as against 2.96% in FY20. Further, the bank has also saw decline in operating cost and credit cost which led to improvement in ROTA from 0.19% in FY20 to 0.69% in FY21 although offset by lower other income. Operating cost has declined on account of focus on controlling expenses as well as lower sourcing expenses due to lower business volumes on account of COVID -19. During FY21, provisions have decreased from Rs.18,534 crore in FY20 to Rs.16,896 crore in FY21 on account of lower provision for non-performing assets owing to lower slippages and lower provision for other contingencies which offset by increase in provision for depreciation in value of investments. During FY21, the Bank has provided Rs.2,674 crores for standard assets including unhedged foreign currency exposure compared to Rs.1,441 crores in FY20. It includes an amount of Rs.2,012 crores towards the 10% provision on loans under moratorium as per RBI guidelines on COVID-19 regulatory package. ABL has a covid provision of Rs 5,012 cr, which it has not utilized in Q1 FY 22 and overall, non NPA provisions aggregating to 2.05% on June 30, 2021. However, Other income has declined in FY21 over FY20 on account of low fee income.

For Q1FY22 (refers to period from April 01 to June 30), the bank reported PAT of Rs.2,160 crore on total income of Rs.19,592 crore.

Liquidity – Strong

ABL's asset liability maturity (ALM) profile as of June 30, 2021, had negative cumulative mismatches 6 month to 1 year. Further, the bank's healthy deposit franchise with established CASA base and excess SLR maintained by ABL (Rs.57,915 crore as on March 31, 2021) provides comfort. In addition, ABL has been increasing the proportion of retail deposits gradually. In addition, ABL has been increasing the proportion of retail deposits gradually. The bank reported simple daily average Liquidity Coverage Ratio (LCR) of 115.14% for the quarter March 31, 2021. In addition, comfort is drawn with the bank having access to market liquidity by way of call money market and RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Banks](#)

[Financial Ratios – Financial Sector](#)

About Axis Bank Limited

ABL is a new private sector bank incorporated on December 03, 1993; promoted jointly by Unit Trust of India (now Administrator of Specified Undertaking of Unit Trust of India – SUUTI), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and other four PSU insurance companies. As on June 30, 2021, they cumulatively held 11.69% stake in ABL. ABL has an experienced senior management team led by Mr. Amitabh Chaudhry who was appointed as the Managing Director and Chief Executive Officer w.e.f. January 01, 2019

ABL is third largest bank in the private sector banking space with total assets size of Rs.9,88,599 crore as on June 30, 2021. ABL has a pan-India presence through a network of 4,594 domestic branches and extension counters and 17,043 ATMs and cash recyclers spread across the country as on March 31, 2021.

Brief Financials (Rs. Crore)	FY20 (A)	FY21(A)
Total Income	78,172	78,483
PAT	1,627	6,588
Total Assets*	9,07,910	9,88,599
Net NPA (%)	1.56	1.05
ROTA (%) [§]	0.18	0.69

A: Audit; * Total Assets is net of deferred tax asset and intangible assets

[§]Ratio has been computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Instrument	ISIN	Issue Date	Coupon	Maturity Date	Size of the issue*	Rating assigned along with Rating Outlook
BASEL II - Lower Tier II	INE238A08328	01-12-2011	9.73%	01-12-2021	1,500.00	CARE AAA; Stable
BASEL II - Lower Tier II	INE238A08336	20-03-2012	9.30%	20-03-2022	1,925.00	CARE AAA; Stable
BASEL II - Lower Tier II	INE238A08344	31-12-2012	9.15%	31-12-2022	2,500.00	CARE AAA; Stable
BASEL II - Lower Tier II – Proposed					1,875.00	CARE AAA; Stable
BASEL III - Tier II	INE238A08369	12-02-2015	8.45%	12-02-2025	850.00	CARE AAA; Stable
BASEL III - Tier II	INE238A08377	30-09-2015	8.50%	30-09-2025	1,500.00	CARE AAA; Stable
BASEL III - Tier II - Proposed					1,000.00	CARE AAA; Stable
Infra Bonds (Unsecured NCD)	INE238A08385	30-10-2015	8.25%	30-10-2025	3,000.00	CARE AAA; Stable
Infra Bonds (Unsecured NCD)	INE238A08401	20-10-2016	7.60%	20-10-2023	5,000.00	CARE AAA; Stable
Infra Bonds (Unsecured NCD) - Proposed					500.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds-Lower Tier II	LT	1800.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
2.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
3.	Bonds-Lower Tier II	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
4.	Bonds-Lower Tier II	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
5.	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
6.	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
7.	Bonds-Tier II Bonds	LT	3350.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)
8.	Bonds-Infrastructure Bonds	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)

						(07-Sep-20)		
9.	Bonds-Infrastructure Bonds	LT	3500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)

Annexure 3- Detailed explanation of covenants of the rated instruments/facilities – Not Applicable
Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Infrastructure Bonds	Simple
2.	Bonds-Lower Tier II	Complex
3.	Bonds-Tier II Bonds	Complex

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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