Axis Bank Limited

April 08, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds (BASEL II)	1,800.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II Bonds (BASEL II)	1,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II Bonds (BASEL II) *	1,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II Bonds (BASEL II) **	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Lower Tier II Bonds (BASEL II)	1,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier II Bonds (BASEL III)	3,350.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Infrastructure Bonds	8,500.00	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
**Entirely paid off on December 01, 2021.*
***Rs.1,925 crore paid off on March 19, 2022.*

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

CARE Ratings has reaffirmed the ratings assigned to various debt instruments of Axis Bank Limited (Axis Bank). Axis Bank has announced that its Board of Directors, in its meeting held on March 30, 2022, approved the purchase of the Citibank's India Consumer Business from Citibank N.A. (acting through its branch in India) and the NBFC Consumer Business from Citicorp Finance (India) Limited (CFIL), as going concerns. Axis Bank has executed the business transfer agreements with Citibank and CFIL.

Axis Bank would pay a consideration of up to Rs.12,325 crore and the acquisition is expected to be completed by end of FY23, subject to the requisite regulatory approvals and fulfilment of other conditions, while the transition is expected to take up to 18 months. The agreement provides protection to Axis Bank in case of any decline in level of business up to the date of acquisition. In such a case, there may be a revision in the purchase consideration to be paid.

Axis Bank will acquire deposits of Rs.50,200 crore (around 6.5% of its deposits as on December 31, 2021) and an equivalent amount of assets including loan portfolio of Rs.27,400 crore around 4% of its advances as on December 31, 2021) including products like credit cards, mortgage, personal and ready credit loans. The identified deposits have around 81% Current Account Savings Account (CASA) deposits and would add to the CASA base by 2% on combined basis from the current level of 45% as on December 31, 2021.

The acquisition will provide Axis Bank access to 30 lakh unique customers, AUM of over 1 lakh crore in the wealth management segment, a large and affluent customer franchise which is expected to provide synergies with the bank's wealth management business and has potential for cross sell as well as deposits including corporate salary relationships. Furthermore, the bank will benefit from the premium credit card segment which will further strengthen its position as one of the largest players in the segment.

The acquisition is expected to be funded through internal sources and it is expected to impact the capitalisation levels of the bank by around 230 bps and adjusted Capital Adequacy Ratio (CAR) would be around 16% still having sizeable cushion over the minimum regulatory requirement. The bank may raise additional capital in case of requirement for growth.

While CARE Ratings does not expect any material negative impact on the credit profile of Axis Bank on account of the acquisition, the asset quality and performance of the acquired portfolio and the bank's ability to successfully integrate the processes, systems and around 3,600 employees would be key to realise full benefits/synergies from this business transfer.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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

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

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
Axis Bank is third-largest bank in the private sector banking space with total assets size of Rs.11,13,066 crore (not adjusted for deferred tax assets and intangible assets) as on December 31, 2021, as against Rs.9,88,599 crore as on March 31, 2021. The bank has established a robust franchise having pan-India presence through a network of 4,700 domestic branches and extension counters and 17,003 ATMs and cash recyclers spread across the country as on December 31, 2021. Furthermore, the Bank also has its overseas presence spread across seven international offices with branches in Singapore, Dubai (at the DIFC) and Gift City-IBU; representative offices at Dhaka, Dubai, Abu Dhabi and Sharjah.
The bank's advances stood at Rs.6,64,866 crore as on December 31, 2021, while its deposit stood at Rs.7,71,670 crore. Over the last few years, the bank has shifted its focus towards retail lending in order to increase the granularity in the advances portfolio and maintain better asset quality. The proportion of retail lending (around 80% of the book being secured) has increased over the last few years and constituted 55.27% as on December 31, 2021, as compared to 54.55% as on December 31, 2020. Under the retail segment, housing loans constituted the major segment constituting 37% of total retail book, followed by rural lending (13%), vehicle loans (11%), and personal loans (11%) as on December 31, 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. 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 December 31, 2021, the bank's capitalisation levels continued to remain comfortable with CAR at 18.72% and Tier I CAR at 16.46% (including Q3FY22 profit) with CET I Ratio of 15.33% providing the bank enough cushion to absorb any unforeseen losses in future.

Experienced management team
Axis Bank 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 three years, prior to that he was a Managing Director (MD) and Chief Executive Officer (CEO) at HDFC Life Insurance Company Limited. Furthermore, in April 2021, the tenure of Mr Amitabh Chaudhary has extended for the next three years effective from January 01, 2022. Furthermore, the top management team also includes Mr Rajiv Anand (Deputy M.D.) who has extensive experience in the banking field. Furthermore, 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
Axis Bank's total deposits grew by 22% y-o-y and stood at Rs.7,71,670 crore as on December 31, 2021. The bank has a sizeable CASA deposit base which constituted around 44.69% (As on March 31, 2021.: 44.92%) of total deposits as on December 31, 2021. The bank saw its savings account deposits grow by around 24% y-o-y while current account deposits increased by around 27% y-o-y. The bank's term deposits increased by 19% y-o-y.

Key Rating Weakness

Moderate asset quality

During FY21, the slippage has decreased from Rs.19,915 crore in FY20 to Rs.17,247 crore with corporate book having lower slippage as against retail. Provision coverage ratio 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.

The bank's exposure to 'BB and below' rated accounts (excluding investments and non-fund-based exposure) has increased and stood at Rs.7,443 crore as on March 31, 2021, as compared to Rs.6,528 crore 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 crore respectively as at the end of March 2021.

The bank reported Gross NPA ratio of 3.17% and Net NPA ratio of 0.91% as on December 31, 2021, as compared to Gross NPA ratio of 3.70% and Net NPA ratio of 1.05% as on March 31, 2021. The standard restructured loans under resolution framework for COVID-19 related stress as on December 31, 2021, stood at Rs.4,643 crore that translates to 0.63% of the gross customer assets. The bank carries a provision of around 24% on restructured loans, which is in excess of regulatory limits. Furthermore, the impact on asset quality on the profitability of the bank on account of Covid-19 is expected to be limited as the bank holds provision of Rs.5,012 crore as on December 31, 2021, for potential Covid-19 impact which was over and above the provisions held for restructuring under Covid-19 norms.

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 have 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. Furthermore, the bank 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. The 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 crore for standard assets including unhedged foreign currency exposure compared to Rs.1,441 crore in FY20. It includes an amount of Rs.2,012 crore towards the 10% provision on loans under moratorium as per RBI guidelines on COVID-19 regulatory package. Axis Bank has a covid provision of Rs.5,012 crore, which it has not utilized till Q3FY22 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 9MFY22 (refers to period from April 01 to December 31), the bank reported PAT of Rs.8,908 crore on total income of Rs.60,598 crore as against PAT of Rs.3,911 crore on total income of Rs.56,575 crore in the corresponding period last year. Growth in PAT is supported by increase in advances from Rs.5,69,829 crore for 9MFY21 to Rs.6,64,866 crore for 9MFY22 and lower provisioning by around 48% from Rs.12,154 crore for 9MFY21 to Rs.6,372 crore for 9MFY22.

Liquidity: Adequate

The bank's healthy deposit franchise with established CASA base and excess SLR maintained by Axis Bank (Rs.82,935 crore as on December 31, 2021) provides comfort. In addition, the bank has been increasing the proportion of retail deposits gradually. The bank reported simple daily average Liquidity Coverage Ratio (LCR) of over 113% for the quarter ended December 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

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Bank

About the Company

Axis Bank 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. Axis Bank 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. Axis Bank is third-largest bank in the private sector banking space with total assets size of Rs.11,13,065.54 crore as on December 31, 2021. As on December 31, 2021, the Bank had a network of 4,700 domestic branches and extension counters situated in 2,665 centres compared to 4,586 domestic branches and extension counters situated in 2,586 centres as at end of December 31, 2020. In terms of ATMs and cash recyclers, as on December 31, 2021, the bank had 11,060 ATMs and

5,943 cash recyclers spread across the country. The bank's Axis Virtual Centre channel had six centres with over 1,500 Virtual Relationship Managers as on December 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY 2022 (UA)
Total operating income	78,171.72	78,483.49	60,598
PAT	1,627.22	6,588.50	8,908
Total Assets	9,07,909.85	9,88,598.65	11,13,066
Net NPA (%)	1.64	1.12	0.91
ROTA (%)	0.19	0.69	1.13^

A: Audited; UA: Unaudited
$Ratio has been computed based on average of annual opening and closing balances
^Annualised

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

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	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

**Rating yet to be withdrawn*

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Bonds-Lower Tier II	LT	1800.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
2	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (06-Dec-19)
3	Bonds-Lower Tier II	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
4	Bonds-Lower Tier II	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
5	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
6	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
7	Bonds-Tier II Bonds	LT	3350.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
8	Bonds-Infrastructure Bonds	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)
9	Bonds-Infrastructure Bonds	LT	3500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (07-Sep-20)	1)CARE AAA; Stable (06-Dec-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Bonds-Infrastructure Bonds	Simple
2	Bonds-Lower Tier II	Complex
3	Bonds-Tier II Bonds	Complex

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**