Axis Finance Limited (Revised)

December 8, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-convertible debentures	23,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Subordinated debt	3,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Perpetual debt	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Market-linked debentures	1,500.00	CARE PP-MLD AAA; Stable (Principal Protected-Market Linked Debentures Triple A; Outlook: Stable)	Assigned
Total Instruments	**30,000.00 (Rs. Thirty thousand crore only)**		
Long-term / Short-term bank facilities	10,000.00	CARE AAA; Stable (Triple A; Outlook: Stable) / CARE A1+ (A One Plus)	Assigned
Total bank facilities	**10,000.00 (Rs. Ten thousand crore only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale & key rating drivers

The ratings assigned to various debt instruments and bank facilities of Axis Finance Limited (AFL) factor in the parentage of Axis Bank Limited (ABL; rated CARE AAA; Stable), AFL's strategic importance to ABL, shared brand identity in terms of name and logo, operational and management linkages, demonstrated support in terms of periodic equity capital infusion and the financial flexibility of AFL due to the parentage of ABL. CARE Ratings Limited (CARE Ratings) expects AFL to continue to receive support going forward.

The ratings also factor in comfortable capitalisation, stable earnings profile and improvement in profitability, diversification in asset profile over the last three years, improvement in asset quality, diversified funding profile and adequate liquidity profile of AFL.

Exposure to concentration risks inherent in the wholesale lending business model is the key rating challenge.

The rating assigned to the perpetual debt factors in the capital buffer and profitability maintained in addition to the parentage of ABL. AFL has been maintaining cushion of >4% in the last five years above the minimum regulatory requirement supported by periodic capital infusion by ABL as well as accretion of profits. CARE Ratings expects AFL to continue to maintain the capital cushion at similar levels going forward.

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 the credit profile of the parent (Axis Bank Ltd).
- Material changes in ownership structure, dilution in expected support from ABL or significant changes in strategic importance of AFL to ABL.
- Significant decline in profitability or deterioration in asset quality parameters and capitalisation ratios.

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

Detailed description of the key rating drivers

Key rating strengths

Parentage of Axis Bank Limited, managerial, and operational linkage and expected financial support from the bank:

The ratings factor in strong operational and financial linkages between AFL and ABL and credit strength of ABL. AFL is a wholly owned subsidiary of ABL and is a company having strategic importance for the Axis group. AFL being a part of the group's 'One Axis' strategy providing synergies to the bank in providing various financial services to the customers of the bank.

The bank has extended its brand identity in terms of shared name and logo to AFL which creates a moral obligation on the bank to provide support in terms of need. ABL has been infusing equity capital periodically to meet the growth capital requirement of AFL. During FY22 (refers to period from April 01, 2021, to March 31, 2022), ABL infused equity capital of around ₹400 crore and during the six months ended September 30, 2022, additional around ₹300 crore of equity capital infused into AFL out of the ₹400 crore planned for FY23 and additional ₹300 crore is expected to be infused during FY24. In addition, the bank has provided funding lines to AFL.

The Managing Director & Chief Executive Officer (MD & CEO) of ABL, Amitabh Chaudhry is the Non-Executive Chairman of the Board of Directors of AFL and the formulation and monitoring of policies related to the credit, risk and human resources of AFL are approved under the supervision of the bank.

CARE Ratings expect AFL to continue to receive funding and management support from ABL going forward.

Comfortable capital position with periodic equity infusion and steady profitability:

Periodic capital infusion as well as accretion to profit has helped AFL to shore up its tangible net worth over the years which stood at ₹2,670 crore as on September 30, 2022 (₹2,103 crore as on March 31, 2022). The company has been reporting comfortable capitalisation with cushion of over 4% above the minimum regulatory requirement over the last five years. AFL reported Capital Adequacy Ratio (CAR) of 19.18% with Tier I CAR of 14.03% as on March 31, 2022, and CAR of 19.21% (Tier I CAR: 14.77%) as on September 30, 2022.

The overall gearing (debt / equity) stood at 6.7 times as on September 30, 2022, as compared to 7 times as on March 31, 2022 and has increased over the last five years considering the growth in business witnessed by the company. The overall gearing is expected to remain in range of 6 to 7 times on a steady-state basis however, the company enjoys financial flexibility in raising resources due to the parentage of ABL. CARE Ratings expects AFL to continue to receive capital support from ABL going forward as AFL scales up its portfolio.

Moderate size:

AFL started retail segment in FY19 and emerging market in FY22. AUF stood at ₹20,455 crore as on September 30,2022. The company is still in initial stage of operation in retail and emerging market segments with only three years and one year of operations respectively, as compared to loan tenure range of 3 to 15 years for these products. Seasoning in these segments is low and yet to be seen.

Diversification in AUF with focus on retail lending:

AFL started its business as a wholesale lender and in order to diversify its asset profile, it entered into retail lending from FY19. Under the retail segment, AFL introduced products like loan against property, business loans, housing loans and personal loans. During FY22, the company further diversified its wholesale lending portfolio by introducing segment of funding 'emerging market' entities. Under this segment, AFL lends to SME/MSME entities leading to granularisation of the lending book.

As on September 30, 2022, AFL had Assets Under Finance (AUF) of ₹20,455 crore, of which wholesale constituted 54%, emerging markets constituted 6% and retail constituted 40%. Around 84% of the AUF was secured. The company has been focusing on further granularisation of the loan portfolio and plans each of the segment to have equal proportion of AUF in the near to medium term.

Under the corporate lending the company focuses on well-rated firms with strong cashflows and track record, collateralised loans where the company follows a cluster-based approach lending to non-cyclical sectors and real estate loans which are generally inventory-backed funding to top developers in select micro markets.

Improvement in financial performance:

Total income has increased to ₹1,510 crore in FY22 as compared to ₹1,029 crore in FY21 witnessing growth of 47% in total income. As the company shifted its focus on better-rated corporate borrowers, its yield on loan portfolio has been declining over the years. The average yield on loan portfolio for FY22 was at 10.23% as compared to 11.34% for FY21. The cost of borrowing for FY22 was lower at 6.21% as compared to 6.90% considering lower interest rate scenario for major part of the year. AFL's net interest margin (NIM) was 4.88% for FY22 as compared to 5.36% for FY21. AFL has been increasing its retail lending portfolio and increasing its employee base which resulted in increased operating expenses to 1.95% of average total assets for FY22 from 1.60% for FY21. AFL reported pre-provisioning operating profit (PPOP) of ₹537 crore for FY22 as compared to ₹384 crore showing an increase of 40%.

AFL saw decline in credit costs during the year with improvement in asset quality and as a result provisioning decreased to ₹73 crore for FY22 as compared to ₹121 crore for FY21. The company reported Profit After Tax (PAT) of ₹346 crore for FY22 with Return on Total Assets (ROTA) of 2.61% as compared to PAT of ₹195 crore for FY21 with ROTA of 3.45%.

In a rising interest scenario during H1FY23, the average yield on advances stood at 10.03% for the period while the average cost of borrowing was at 6.70%. AFL reported PPOP of ₹369 crore for H1FY23 as compared to ₹227 crore for H1FY22. The company reported PAT of ₹258 crore during H1FY23 as compared to PAT of ₹139 crore for H1FY22 showing growth of 86% (y-o-y).

Improvement in asset quality parameters:

AFL saw improvement in asset quality parameters during FY22 with higher amounts of recoveries and upgradations resulting in Gross Stage 3 (GS 3) ratio declining to 1.23% as on March 31, 2022 from 2.96% as on March 31, 2021. The Net Stage 3 (NS 3) ratio stood at 0.42% as on March 31, 2022 as compared to 1.94% as on March 31, 2021. The Net NPA to net worth ratio stood at 3.18% as on March 31, 2022 as compared to 14.15% as on March 31, 2021. The company had a low amount of restructured accounts constituting around 0.15% of AUF as on September 30, 2022. The company had provided loans under the Emergency Credit Linked Guarantee Scheme (ECGS) to few accounts amounting <4% of AUF as on September 30, 2022. The company had provision coverage of 65.85% on its GS3.

AFL has seen increase in slippages during FY20, largely in the wholesale lending portfolio with higher ticket size exposures in the real estate lending.

The asset quality has improved in FY22 as Gross NPA and Net NPA stood at 1.23% and 0.42% respectively as on March 31,2022 as compared to 2.96% and 1.94% as on March 31,2021. Gross NPA and Net NPA stood at 0.85% and 0.36% respectively as on September 30,2022. PAT has increased by 56% to ₹346 crore in FY22 as compared to ₹195 crore in FY21. PAT in H1FY23 was at ₹258 crore.

Diversified funding profile:

AFL borrowing mainly consists of bank loans (term loans), non-convertible debenture and commercial paper constituting 45.69%, 48.28% and 6.03% respectively of total borrowing as on September 30,2022. Bank borrowing stood at ₹8,174.85 crore as on September 30, 2022 as compared to ₹5,494.57 crore as on March 31, 2022. Borrowing cost has reduced from 6.90% in FY21 to 6.21% in FY22. Borrowing cost for H1FY23 was 6.70% on account of increasing interest rate scenario.

Key rating weakness
Exposure to concentration risk in wholesale book:

AFL's AUF witnessed growth of 60.11% in FY22 and stood at ₹17,059 crore as on March 31,2022 as compared to ₹10,654 crore as on March 31,2021. AUF stood at ₹20,455 crore as on September 30,2022. Wholesale AUF constituted 82.35% of total AUF as on March 31,2021 and has significantly reduced to 53.21% of total AUF as on September 30,2022. Corporate loans, collateralised loans and real estate exposure stood at 37%, 11% and 6% respectively of total AUF as on September 30, 2022. The top 20 exposure contributed to 15.17% of AUF as on September 30, 2022.

Liquidity: Adequate
AFL has cash & bank balance of ₹633.01 crore and liquid investment of ₹449.01 crore along with unutilised bank credit of ₹3,857 crore as on September 30,2022. AFL has debt repayment of ₹5,755 crore as against loan receivable of ₹4,365 crore as on September 30, 2022 upto 12 months. CARE Ratings expects moral obligation from ABL if need arises.

Analytical approach

AFL has been assessed based on standalone credit profile factoring parentage of Axis Bank Ltd, managerial and operational linkages and expected financial support on account of 100% shareholding and shared brand.

Applicable criteria

Policy on default recognition
Rating Outlook and Credit Watch
Financial Ratios-Financial Sector
Rating Methodology-Non Banking Finance Companies
Notching by Factoring Linkages in Rating
Short term instrument

About the company

AFL was incorporated as Kalpataru Hire Purchase and Leasing Pvt Ltd in 1995 and was acquired by Enam Securities in year 2009 and renamed Enam Finance Pvt Ltd. As part of Enam Securities' merger with the Axis Bank in 2012, the company became a wholly owned subsidiary of Axis Bank. It is a non-deposit-taking non-banking financial company based in Mumbai, with AUF of ₹20,445 crore as on September 30, 2022 (₹17,059 crore as on March 31, 2022). Product offerings in the wholesale segment include corporate loans, collateralised loans, loan against property, lease rental discounting and real estate inventory backed financing. AUF of wholesale segment stood at ₹10,879 crore. AFL diversified into retail segments with products such as LAP, home loans, business loans and personal loans in fiscal 2019. AUF in the retail segment stood at ₹7,920 crore as on September 30, 2022. AFL has launched a new segment named as 'Emerging Markets' in FY22 where it will offer secured loans to MSME/SME segment and AUF for Emerging market segment stood at ₹1,205 crore as on September 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total Operating Income	1,029.16	1,510.67	1,032.77
PAT	194.62	346.33	257.55
Total asset	11,212.05	17,302.03	21,199.21
Overall Gearing (times) [Debt / Tangible Net worth]	7.12	7.06	6.74
ROTA %	3.45	2.61	2.16
RONW %	14.59	20.31	16.01

A: Audited UA: UnAudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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
Non-convertible debentures	Proposed	-	-	-	23,000.00	CARE AAA; Stable

Subordinated debt	Proposed	-	-	-	3,500.00	CARE AAA; Stable
Perpetual debt	Proposed	-	-	-	2,000.00	CARE AAA; Stable
Market-linked debentures	Proposed	-	-	-	1,500.00	CARE PP-MLD AAA; Stable
Long-term / Short-term bank facilities	Proposed	-	-	-	10,000.00	CARE AAA; Stable/CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debt-Subordinate Debt	LT	3500.00	CARE AAA; Stable				
2	Debentures-Non Convertible Debentures	LT	23000.00	CARE AAA; Stable				
3	Debentures-Market Linked Debentures	LT	1500.00	CARE PP-MLD AAA; Stable				
4	Debt-Perpetual Debt	LT	2000.00	CARE AAA; Stable				
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	10000.00	CARE AAA; Stable / CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Market Linked Debentures	Highly Complex
2	Debentures-Non Convertible Debentures	Simple
3	Debt-Perpetual Debt	Highly Complex
4	Debt-Subordinate Debt	Simple
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

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 instruments: CARE Ratings 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Aditya R Acharekar
Phone: 9819013971
E-mail: aditya.acharekar@careedge.in

Relationship contact
Name: Saikat Roy
Phone: 022 67543404 /136
E-mail: saikat.roy@careedge.in

About us:
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