Axis Bank Limited

September 07, 2020

Ratings

Facilities	Amount Rated (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds	7,800.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Basel III – Tier II Bonds	3,350.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Infrastructure Bonds I	5,000.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Infrastructure Bonds II	3,500.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Total	**19,650.00 (Rupees 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 and strong market position as one of the largest private sector banks in the country, strong franchise and branch network with a focused shift towards retail lending, comfortable capitalization with demonstrated ability to raise capital, experienced management team and strong and diversified resource profile led by healthy Current Account Savings Account (CASA) deposit mix.

The ratings factor in the bank's moderate asset quality as reflected by its GNPA ratio of 4.86% as on March 31, 2020. The same, however, has seen an improvement vis-à-vis 5.26% as on March 31, 2019 mainly on account of increased write offs. During FY20, the bank had write-offs of around Rs.10,169 crore as compared to write-offs of Rs.9,229 crore during FY19 (Including Technical or Prudential Write-Offs). Further, the bank reported increase in corporate slippages to the extent of Rs.11,222 crore of which 84% came from "BB and below" rated portfolio as compared to Rs.6,565 crore in FY19. The bank's pool of 'BB and below' rated accounts reduced to Rs.6,528 crore as compared to Rs.7,467 crore at the end of FY19. Further, the bank's Net NPA to Net worth ratio improved to 12.05% as on March 31, 2020 as compared to 19.10% as on March 31, 2019.

The ratings also factor in the bank's moderate profitability on account of higher provisioning in view of the likely impact of overall slowdown in the economy driven by nationwide lockdown induced by Covid-19 pandemic.

ABL's asset quality, capitalization levels and profitability remain the key rating sensitivities.

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

Covid-19 Impact:

As per the RBI regulatory guidelines the Bank has extended the option of moratorium for all dues falling between March 01, 2020 to May 31, 2020. However, the Bank had provided its borrowers with an OPT-IN or OPT-OUT option, for availing of the Moratorium in respect of the credit facilities availed, apart from several group of borrowers where moratorium was proactively extended. For dues falling between June 01, 2020 to August 31, 2020, the Bank has adopted an approach of recovery of moratorium-1 rather than the extension of the moratorium. The Bank adopted a review approval based approach for extending the moratorium benefit to the borrowers, only customers impacted by the COVID crisis were extended the moratorium under Moratorium 2. The total portfolio under moratorium as of June 30, 2020 stood at 9.7%

[1] *Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

by value which reduced from 25-28% as on April 25, 2020. Around 78% of the portfolio under moratorium is secured as of June 30, 2020.

Further, the Bank has provided Rs.1,118 crore for Standard assets towards 10% provision on loans under moratorium as per RBI guidelines on Covid-19 regulatory package. Further, the bank has made additional provisioning of Rs.1,882 crore based on internal stress testing that has been undertaken by the Bank. Further, in Q1FY21 the bank made provisioning of Rs.733 crore towards Covid-19.

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.9,07,910 crore (adjusted for deferred tax assets and intangible assets) as on March 31, 2020, registering a 14% CAGR over 5 years ended FY20. The bank has established a robust franchise having pan-India presence through a network of 4,528 domestic branches and extension counters and 11,971 ATMs and 5,485 cash recyclers spread across the country as on June 30, 2020. Further, the Bank also has its overseas presence spread across eleven international offices with branches at Singapore, Hong Kong, Dubai (at the DIFC), Colombo, Shanghai and Gift City-IBU; representative offices at Dhaka, Dubai, Abu Dhabi and Sharjah.

The bank's advances (net) stood at Rs.5,61,341crore as on June 30, 2020 while its deposit stood at Rs.6,28,150 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 has increased from around 41% as on March 31, 2016 to around 53% as on June 30, 2020. While the proportion of wholesale lending has declined from around 46% as on March 31, 2016 to around 37% as on June 30, 2020.

Comfortable 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 raised equity capital of Rs.12,500 crore during FY20 (refers to period from April 01 to March 31) by way of a qualified institutional placement (QIP) at an issue price of Rs.629 per share. As a result, the bank's tangible net worth increased to Rs.77,693 crore (P.Y: Rs.59,036 crore) and the bank reported Capital Adequacy Ratio (CAR) of 17.53% (P.Y.:15.84%) and Tier I CAR of 14.49% (P.Y.:12.54%) with Common Equity Tier I (CET I) Ratio of 13.34% (P.Y.:11.27%) as on March 31, 2020 which was comfortably above the minimum capital required (CAR) to be maintained by the bank for the year ended 31st March 2020 was around 10.875% (CET1 of 7.375%; including CCB of 1.875%). In view of the likely impact of Covid-19 on the asset quality, the bank has made provision of Rs.1,118 crore for Standard assets towards 10% provision on loans under moratorium as per RBI guidelines on Covid-19 regulatory package. Further, the bank has made additional provisioning of Rs.1,882 crore based on internal stress testing based that has been undertaken by the Bank, further in Q1FY21 the bank made provisioning of Rs.733 crore towards Covid-19.

As on June 30, 2020, the bank reported CAR at 17.47% (including Q1FY21 profit) with Tier I CAR of 14.62% and CET I ratio of 13.50% as on June 30, 2020.

In order to shore up the bank's ability to absorb any loss or incremental credit costs, the bank has raised equity capital of Rs.10,000 crore through a QIP of equity shares during Q2FY21 (refers to period from July 01 to September 30) and has an enabling board resolution to raise additional Rs.5,000 crore of capital.

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, the management team includes Executive Directors (ED) who are Mr. Rajiv Anand (Wholesale Banking) and Mr. Rajesh Dahiya (Corporate Centre). Mr. Rajesh Dahiya has over 25 years of experience and was previously associated with the Tata Group for 20 years. Mr. Rajiv Anand, has over 28 years of experience in the financial services industry, he has been with Axis group for over 10 years.

The Bank under the guidance of its Nomination & Remuneration Committee has initiated the succession planning process for another ED in place of Mr. Pralay Mondal who resigned from the bank.

The bank saw some changes in its top management team in the last two years. Apart from change in Chairman and MD & CEO, the bank has appointed Mr.Puneet Sharma as the Chief Financial Officer (CFO) w.e.f. March 06, 2020. Mr. Puneet Sharma has over 23 years of experience across banks, financial institutions and consulting.

Strong liability franchise and diversified resource profile with comfortable liquidity profile

ABL's total deposits grew by 16.71% and stood at Rs.6,40,105 crore as on March 31, 2020. The bank has a sizeable CASA deposit base which constituted around 41% (P.Y.: ~44%) of total deposits as on March 31, 2020. The bank saw its Savings Account deposits grow by 13% y-o-y while Current Account deposits remained flat with a marginal growth of around 1%. The bank's term deposits increased by 23% during the year. Further, the CASA and retail term deposit constituted 81% of total deposits as on March 31, 2020. As on June 30, 2020, CASA deposits constituted 41% of the total deposits of the bank, while CASA and retail term deposits together constituted 83% of the total deposits.

ABL's asset liability maturity (ALM) profile as of June 30, 2020, had negative cumulative mismatches across time buckets beyond 3 months up to 1 year, with a peak cumulative mismatch of Rs.20,645 crore in the 6 months to 1 year time bracket. 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.26,640 crore as on June 30, 2020) provides comfort. In addition, ABL has been increasing the proportion of retail deposits gradually. The bank reported simple daily average Liquidity Coverage Ratio (LCR) of 113.03% for the quarter March 31, 2020 and 120.26% for the quarter June 30, 2020

Key Rating Weakness

Moderate asset quality

The bank reported Gross NPA ratio of 4.86% and Net NPA ratio of 1.56% as on March 31, 2020 as compared to Gross NPA ratio of 5.26% and Net NPA ratio of 2.06% as on March 31, 2019. During FY20, the bank saw higher slippages from the corporate lending portfolio especially in Q3FY20 (refers to period from October 01 to December 31). A large part of slippages in the corporate loan portfolio were from the 'BB and below' rated book. The bank has seen increase in the amount of write-offs over the last two years resulting in improvement in Net NPA ratio. As a result of reduction in Net NPAs and increase in net worth due to infusion of equity capital during the year, the bank's Net NPA to Net worth ratio stood at 12.05% as on March 31, 2020 as compared to 19.10% as on March 31, 2019.

As on June 30, 2020, the bank reported Gross NPA ratio of 4.72% and Net NPA ratio of 1.23% with Net NPA to Net worth ratio of 9.45% on account of reduction in slippages and increase in write offs.

The bank's pool of 'BB and below' rated accounts reduced to Rs.6,528 crore (fund based) as on March 31, 2020 and further to Rs.6,420 crore as on June 30, 2020 (constituting 1.1% of total advances) as compared to Rs.7,467 crore (constituting 1.3% of advances) as on March 31, 2019.

Moderate Financial performance

During FY20, the bank's advances grew by 15% while deposits grew by 17%. The average yield on advances increased to 8.74% during FY20 as compared to 8.48% in FY19, the increase in the yields was majorly on account of increase in yields on retail advances, while the cost of deposits declined to 5.03% for FY20 as compared to 5.11% for FY19 resulting in improvement in margin. This led to an increase in NIM of 2.96% for FY20 as compared to 2.94% for FY19.

Further, the bank also saw an increase in non-interest income by 18% during FY20 supported by fee-based income and treasury operations. The bank's total income for FY20 increased by 15% to Rs.78,172 crore as compared to Rs.68,116 crore for FY19.

The bank has been taking measures to reduce operating costs as a result of which the operating expenses decreased to 2.03% of average total assets as compared to 2.14% in FY19. During FY20 the bank's pre provision operating profit (PPOP) increased by 23% during FY20 to Rs.23.438 crore as compared to Rs.19,005 crore for FY19.

Further, the bank made provisioning of Rs.7,730 crore during Q4FY20 including provision for potential impact of Covid-19 resulting in increase in provision cost by 54% for FY20. As a result, the bank's PBT declined by 30% to Rs.4,904 crore for FY20 from Rs.6,974 crore for FY19.

During FY20 (Q2FY20), the bank also took a one-time impact of Deferred Tax Asset (DTA) charge to incorporate revised corporate tax rates. As a result, the bank's PAT for FY20 declined by 65% to Rs.1,627 crore as against PAT of Rs.4,677 crore in FY19. Consequently, the bank's ROTA declined to 0.19% in FY20 as against 0.63% in FY19. The adjusted (for these one-time charges), the net profit for FY20 would have been Rs.5,182 crore up by around 11% (y-o-y).

For Q1FY21 (refers to period from April 01 to June 30), the bank reported PAT of Rs.1,112 crore as compared to PAT of Rs.1,370 crore in the previous years quarter, the decline in PAT was majorly on account of the revision in banks accounting practices. Adjusted for accounting policy changes and NII reserves created, the PAT for the quarter would have been Rs.1,626 crore respectively, growing by 19% over Q1FY20. Further in Q1FY21 the bank made provisioning of Rs.733 crore towards Covid-19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
CARE's Rating Methodology for Banks
Financial Ratios-Financial Sector

Liquidity – Strong

ABL's asset liability maturity (ALM) profile as of June 30, 2020, had negative cumulative mismatches across time buckets beyond 3 months up to 1 year, with a peak cumulative mismatch of Rs.20,645 crore in the 6 months to 1 year time bracket. 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.26,640 crore as on June 30, 2020) provides comfort. In addition, ABL has been increasing the proportion of retail deposits gradually. The bank reported simple daily average Liquidity Coverage Ratio (LCR) of 113.03% for the quarter March 31, 2020 and 120.26% for the quarter June 30, 2020. 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).

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, 2020, they cumulatively held 15.99% 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.8,97,138 crore as on June 30, 2020. ABL has a pan-India presence through a network of 4,528 domestic branches and extension counters and 12,044 ATMs and 5,433 cash recyclers spread across the country as on March 31, 2020.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Income	68,116	78,172
PAT	4,677	1,627
Total Assets*	7,93,356	9,07,910
Net NPA (%)	2.06	1.56
ROTA (%)$	0.63	0.19

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

@Net worth 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

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

**As on August 24, 2020*

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Lower Tier II	LT	1800.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
3.	Bonds-Lower Tier II	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
4.	Bonds-Lower Tier II	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
5.	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
6.	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
7.	Bonds-Tier II Bonds	LT	3350.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
8.	Bonds-Infrastructure Bonds	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)
9.	Bonds-Infrastructure Bonds	LT	3500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)

Annexure 3: 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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