Axis Bank Limited

December 06, 2019

Ratings

Facilities	Amount Rated (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds	7,800.00 (reduced from Rs.10,000 crore)#	**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

#Reduction in amount rated is on account of redemption of bonds.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Axis Bank Limited (ABL) factor in the equity capital infusion during H1FY20 (refers to period from April 01 to September 30) enabling the bank to maintain comfortable capitalisation levels as well as demonstrated resource raising ability, strong track record of the bank and position as one of the largest private sector banks in the country, strong retail franchise with a focused shift towards retail lending, experienced management team, strong and diversified resource profile led by healthy Current Account Savings Account (CASA) deposit mix. The rating also takes into account the bank's moderate albeit improving asset quality and moderate profitability.

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

Rating sensitivities - *Negative Factors*

- Deterioration in asset quality parameters – In the event of Net NPA ratio increasing to more than 5.50%
- In case of a decline in capitalization levels with low cushion over the minimum regulatory requirement on a continuous basis
- In a situation of deterioration in profitability parameters on a continued basis

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capitalization levels post equity infusion during H1FY20 and demonstrated resource raising ability

The bank has demonstrated strong capital raising ability to fund its growth and maintain healthy capitalization levels over the years. Over the last couple of years, the bank has been focusing on reducing the risk weighted assets (RWA) to enable the bank to have optimum utilization of capital by increasing the proportion of higher rated exposures. As a result, the bank's RWA as a % of total tangible assets reduced from 76% as on March 31, 2018 to 70% as on March 31, 2019. The bank reported Capital Adequacy Ratio (CAR) (under Basel III) of 15.84% [P.Y.: 16.57%], with Tier I CAR of 12.54% [P.Y.: 13.04%] with Common Equity Tier (CET) I Ratio of 11.27% [P.Y.: 11.68%] as on March 31, 2019.

During Q1FY20 (refers to period from April 01 to June 30, 2019), the bank allotted equity shares pursuant to exercise of convertible share warrants, resulting in increase in paid-up share capital and reserves to the tune of Rs.2,562.69 crore. During Q2FY20 (refers to period from July 01 to September 30), the bank raised additional equity capital of Rs.12,500 crore by way of a qualified institutional placement (QIP) at an issue price of Rs.629 per share. As a result, the bank reported CAR of 18.45% and Tier I CAR of 15.25% (CET 1 CAR of 14.04%) as on September 30, 2019.

Experienced management team

The bank saw significant changes in its top management team during FY19 (refers to period from April 01 to March 31) with its erstwhile Managing Director and Chief Executive Officer (MD & CEO) Ms. Shikha Sharma retiring w.e.f. December 31, 2018. The bank appointed Mr. Amitabh Chaudhary as the MD & CEO of the bank w.e.f. January 01, 2019. Mr. Chaudhry previously led HDFC Life for 9 years, and has also been associated with Infosys BPO as the MD & CEO, Bank of America, and Credit Lyonnais Securities.

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

The bank appointed Mr. Rajesh Makhija as Independent Director and Non Executive (Part time) Chairman of the Board of Directors of the bank w.e.f. July 18, 2019. Mr. Makhija has held a number of top management positions within the SKF Group and prior to joining the SKF group he was the MD & CEO of Tata Honeywell Ltd.

The top management includes three Executive Directors (ED) Mr. Rajesh Dahiya (ED – Corporate Centre), Mr. Rajiv Anand (ED – Wholesale Banking) and Mr. Pralay Mondal (ED – Retail Banking) who have extensive experience in the banking field. Mr. Rajesh Dahiya has over 25 years of experience and was previously associated with the Tata Group for 20 years. Mr. Rajiv Anand, was re-designated as the ED-Wholesale Banking w.e.f. December 21, 2019, and has over 28 years of experience in the financial services industry. Mr. Mondal was appointed as the ED – Retail Banking w.e.f. August 01, 2019 has around 30 years of experience across retail banking, business banking, products and technology. He was previously associated with Yes Bank as the Head of Retail and Business Banking.

Strong and diversified resource profile

ABL's total deposits grew by 21% and stood at Rs.5,48,471 crore as on March 31, 2019. The bank's Savings Account deposits recorded a growth of 4% y-o-y, while Current Account deposits reduced by 7%. As on March 31, 2019, the Current Account Savings Account (CASA) deposits constituted 44% of the bank's total deposits as compared to 54% as on March 31, 2018. During FY19, the bank focused on increasing its retail term deposits and as a result, retail term deposits grew 44% and stood at Rs.1,98,914 crore, constituting 65% [P.Y.: 66%] of the total term deposits, and 36% [P.Y.: 30%] of the total deposits of the bank as on March 31, 2019. As on March 31, 2019, CASA and retail term deposits constituted 81% of the total deposits of the bank.

As on September 30, 2019, CASA deposits constituted 41% of the total deposits of the bank, while CASA and retail term deposits together constituted 80% of the total deposits.

Financial performance

During FY19, the bank's Net Interest Income (NII) grew by 17%, primarily owing to an increase of 17% in average interest earning assets on a daily average basis. The bank's yield on advances improved from 8.40% in FY18 to 8.84% in FY19, on account of lower interest income reversals on NPAs and increase in MCLR-based lending rate by 50 bps.

During FY19, the bank widened its focus from CASA deposits to CASA plus retail term deposits, resulting in a 44% growth in its retail term deposits base. As a result, the bank's cost of deposits increased from 4.42% in FY18 to 4.73% in FY19. The bank's NIM marginally increased to 2.94% in FY19 as against 2.91% in FY18.

The bank's non-interest income, which mainly consisted of fee income, grew by 20% in FY19. Fee income constituted 77% of the non-interest income, with retail and transaction banking fees constituting 80% [P.Y.: 75%] of the fee income. During the year, ABL sold its stake in Max Life Insurance Company and National Securities Depository Limited (NSDL) and reported a gain of Rs.342 crore on sale of investments.

The bank saw recoveries of Rs.1,867 crore during FY19 from written off accounts as compared to Rs.183 crore in FY18. The recoveries were primarily in the iron and steel sector.

The bank's cost to income ratio moderated to 45.45% in FY19 [P.Y.: 47.29%]. Coupled with lower provisioning costs, the bank reported Profit After Tax (PAT) of Rs.4,677 crore in FY19 as against PAT of Rs.276 crore in FY18. Consequently, the bank's Return on Total Assets (ROTA) improved to 0.63% in FY19 as against 0.04% in FY18.

During Q2FY20, the bank exercised the option of a reduced tax rate as permitted under section 115BAA of the Income Tax Act as introduced by the amendment ordinance in 2019. Accordingly, the bank recognised provision for income tax for the quarter and half year ended September 30, 2019 and re-measured the balance of net deferred tax assets, basis the rate prescribed in the section. The re-measurement resulted in a write down of net deferred tax assets pertaining to earlier years by Rs.2,137.59 crore which has been fully charged to the Profit & Loss Account. As a result, the bank reported net loss of Rs.112 crore for Q2FY20. For H1FY20, the bank reported PAT of Rs.1,258 crore on a total income of Rs.38,457 crore in H1FY20.

Strong retail franchise with robust branch network and strong track record

As on September 30, 2019, ABL had a network of 4,284 domestic branches & extension counters, with rural branches constituting 16% of the total, situated in 2,453 centres. The bank had 12,191 ATMs and 5,124 cash recyclers spread across the country as on September 30, 2019. The Bank has strategic international presence in seven countries through its branches in Singapore, Hong Kong, DIFC – Dubai, Colombo and Shanghai, an off-shore banking unit in International Financial Service Centre (IFSC), Gujarat International Finance Tec-City (GIFT City), Gandhinagar. Additionally, the Bank has a presence in UK with its wholly owned subsidiary Axis Bank UK Ltd.

Key Rating Weakness

Moderate asset quality; albeit improvement during FY19 and H1FY20

The bank's asset quality parameters showed improvement in FY19 with reduction in incremental slippages as compared to FY18. The bank's pool of 'BB and below' rated accounts reduced from Rs.8,994 crore on March 31, 2018 to Rs.7,467 crore

as on March 31, 2019 and further to Rs.6,291 crore as on September 30, 2019. During FY19, the bank added Rs.6,204 crore of corporate slippages, of which around 87% were from 'BB and below' rated pool identified by the bank. The bank's pool of 'BB and below' rated advances as a percentage of gross customer advances reduced from 1.8% as on March 31, 2018 to 1.3% as on March 31, 2019 and further to 1.1% as on September 30, 2019.
Major sectors contributing to the 'BB and below' rated pool as on September 30, 2019 were Power sector accounts-comprising 17% of the pool, Infrastructure Roads comprising 11%, Hotels comprising 8%, while Infrastructure Construction comprised 8% of the pool.
As a result of recoveries- and reduced slippages, the bank reported Gross NPA ratio of 5.26% [P.Y.: 6.77%] and Net NPA ratio of 2.06% [P.Y.: 3.40%] as on March 31, 2019. The bank's Net NPA to net worth ratio stood at 19.10% [P.Y.: 29.33%] as on March 31, 2019.
Infrastructure sector advances continued to witness significant stress with Gross NPA ratio of 24.22% as on March 31, 2019, followed by Commercial Real Estate with Gross NPA ratio of 10.48% as on March 31, 2019.
During H1FY20, the bank's asset quality indicators showed improvement with the bank reporting Gross Ratio of 5.03%, Net NPA ratio 1.99% and Net NPA to Net worth ratio of 14.79% as on September 30, 2019. The bank reported Provision Coverage Ratio (PCR) of 79%.

Liquidity risk
ABL's asset liability maturity profile as of September 30, 2019 had negative cumulative mismatches across time buckets beyond 2 months up to 1 year which were well within the tolerance limits of the bank. The negative mismatches were mainly on account of maturity of deposits during the period. Further, high roll over rate of deposits, and comfortable CASA proportion provides comfort. In addition, ABL has been increasing the proportion of retail deposits gradually. The bank reported Liquidity Coverage Ratio (LCR) of 119.72% as on September 30, 2019. Further, the bank has access to borrowing from RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with cash reserves with RBI which provide comfort in meeting any liquidity pressures.

Shift towards retail lending
Over the last three years the bank has shifted its focus towards retail lending. The proportion of retail lending increased from around 41% as on March 31, 2016 to around 52% as on September 30, 2019. The proportion of corporate lending decreased from around 46% as on March 31, 2016 to around 36% as on September 30, 2019. The mix is expected to remain stable going forward.

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 liquidity profile as of September 30, 2019 had negative cumulative mismatches across time buckets beyond 2 months up to 1 year. However, the mismatches are well within the tolerance limits of ABL. The bank reported Liquidity Coverage Ratio (LCR) of 119.72% as on September 30, 2019. Further, the bank has access to LAF and MSF facility in case of any liquidity requirements.

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 September 30, 2019, they cumulatively held 16.22% 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.8,09,294 crore as on September 30, 2019. ABL has a pan-India presence through a network of 4,284 domestic branches and extension counters and 12,191 ATMs and 5,124 cash recyclers spread across the country as on September 30, 2019.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Income	56,747	68,116
PAT	276	4,677
Total Assets*	6,84,453	7,93,356
Net NPA (%)	3.40	2.06
ROTA (%)$	0.04	0.63

*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

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
BASEL II - Lower Tier II	-	-	-	-	-	Withdrawn
BASEL II - Lower Tier II	1/12/2011	INE238A08328	9.73%	1/12/2021	1500	CARE AAA; Stable
BASEL II - Lower Tier II	20/3/2012	INE238A08336	9.30%	20/3/2022	1925	CARE AAA; Stable
BASEL II - Lower Tier II	31/12/2012	INE238A08344	9.15%	31/12/2022	2500	CARE AAA; Stable
BASEL II - Lower Tier II – Proposed	-	-	-	-	1875	CARE AAA; Stable
BASEL III - Tier II	12/2/2015	INE238A08369	8.45%	12/2/2025	850	CARE AAA; Stable
BASEL III - Tier II	30/9/2015	INE238A08377	8.50%	30/9/2025	1500	CARE AAA; Stable
BASEL III - Tier II - Proposed	-	-	-	-	1000	CARE AAA; Stable
Infra Bonds (Unsecured NCD)	30/10/2015	INE238A08385	8.25%	30/10/2025	3000	CARE AAA; Stable
Infra Bonds (Unsecured NCD)	20/10/2016	INE238A08401	7.60%	20/10/2023	5000	CARE AAA; Stable
Infra Bonds (Unsecured NCD) - Proposed	-	-	-	-	500	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Rated Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	1800.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
2.	Bonds-Lower Tier II	LT	-	-	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
3.	Bonds-Lower Tier II	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
4.	Bonds-Lower Tier II	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
5.	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
6.	Bonds-Lower Tier II	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
7.	Bonds-Tier II Bonds	LT	3350.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (02-Sep-16)
8.	Bonds-Infrastructure Bonds	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (20-Oct-16) 2)CARE AAA (02-Sep-16)
9.	Bonds-Infrastructure Bonds	LT	3500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (31-Jan-18)	1)CARE AAA (20-Oct-16)

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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