AXIS/CO/CS/584/2021-22

January 25, 2022

The Chief Manager,
Listing & Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, "G" Block
Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051

NSE Symbol: AXISBANK

The Senior General Manager –
Listing Department
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building
P. J. Towers, Dalal Street
Fort, Mumbai – 400 001

BSE Scrip Code : 532215

Dear Sir(s),

Sub.: Rating action by S&P Global Ratings.

Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations").

This is to inform you that credit rating agency S&P Global Ratings has revised the outlook on Axis Bank Limited ("the Bank") to 'positive' from 'stable'. At the same time, S&P Global Ratings has affirmed its 'BB+' long-term and 'B' short-term issuer credit ratings on the Bank.

S&P Global Ratings has also affirmed the 'BB+' long-term issue rating on the bank's outstanding debt.

The rating rationale letter of S&P Global Ratings received by the Bank today is attached herewith.

This is for your information and records.

Thanking You.

Yours sincerely,

For Axis Bank Limited

SANDEEP PODDAR Digitally signed by SANDEEP PODDAR Date: 2022.01.25 19:24:17 +05'30'

Sandeep Poddar
Company Secretary
Encl.: as above

Research Update:

Axis Bank Outlook Revised To Positive On Improving Asset Quality; 'BB+/B' Ratings Affirmed Under Revised Criteria

January 25, 2022

PRIMARY CREDIT ANALYST

Nikita Anand
Singapore
+ 65 6216 1050
nikita.anand
@spglobal.com

SECONDARY CONTACTS

Geeta Chugh
Mumbai
+ 912233421910
geeta.chugh
@spglobal.com

Amit Pandey
Singapore
+ 65 6239 6344
amit.pandey
@spglobal.com

Overview

- Axis Bank Ltd. is likely to sustain improvements in asset quality supported by an economic recovery and improved risk management.
- We revised our outlook on the India-based bank to positive from stable. At the same time, we affirmed our 'BB+' long-term and 'B' short-term issuer credit ratings on Axis Bank under our revised criteria. We also affirmed the 'BB+' long-term issue rating on the bank's outstanding debt.
- The positive outlook reflects a one-in-three chance that Axis Bank's asset quality metrics could be commensurate with higher-rated Indian and international peers over the next 12-18 months.

Rating Action

On Jan. 25, 2022, S&P Global Ratings revised the outlook on Axis Bank to positive from stable. At the same time, we affirmed our 'BB+' long-term and 'B' short-term issuer credit ratings on the bank. We also affirmed the 'BB+' long-term issue rating on the bank's outstanding debt.

The affirmation of our ratings on the bank follows a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology" and "Banking Industry Country Risk Assessment Methodology And Assumptions" published on Dec. 9, 2021). The changes in criteria do not affect the rating.

Our assessments of Axis Bank's stand-alone credit profile (SACP) and the likelihood of extraordinary external support are unchanged under our revised criteria.

Rationale

The outlook revision reflects our view of a one-in-three chance that Axis Bank's asset quality could continue to improve such that the bank's credit costs and level of weak loans are commensurate with those of higher-rated Indian and international peers.

Axis Bank's loan growth, asset quality, and profitability should improve as economic activity gains pace in India over the next two years. Under our base-case scenario, we forecast the bank's weak loans, defined as nonperforming loans (NPLs) and restructured loans, will decline to 3.3%-3.5% over the next 12 months from about 3.8% of total loans as of Dec. 31, 2021, supported by stabilizing credit conditions. Credit costs will likely moderate to 1.3%-1.5%, lower than 2.3% in fiscal 2021 (year ended March 31, 2021), given the bank has accelerated provisioning on weak loans in recent quarters.

As of Dec. 31, 2021, Axis Bank had restructured a small 0.6% of its total loans, mainly from retail and corporate segments. Additionally, the bank has identified at-risk exposures (rated 'BB' and below plus restructured loans) of about 0.9% of loans. Some of these loans could become nonperforming, especially in sectors such as hotels and trading, which were hit hard by the pandemic. However, recoveries from existing NPLs should help offset the negative effect.

Since a change in senior management, Axis Bank has pursued calibrated growth, prudent provisioning and maintained adequate capital buffers. The bank's tighter risk management along with improving operating conditions in India should help sustain the decline in its credit costs and weak loans. If this trend persists, the bank's asset quality should remain better than the sector average in India. If the bank's weak loans and credit costs decline below our base-case forecasts, they could be comparable to international peers.

The bank's asset quality has historically been at the lower end when compared with international peers'. This reflects the severe corporate debt downturn that Indian banks faced in pre-pandemic years and Axis Bank's high exposure to stressed corporates. The bank's credit costs are declining given that legacy weak loans have been largely provided for, and pandemic-related weak loans have been manageable.

We expect Axis Bank to proactively recognize and provision for weak assets. Cumulative provisions covered about 2% of loans classified as standard as of Dec. 31, 2021. The bank has prudently boosted provision coverage on restructured loans with 100% provided for unsecured retail loans.

Our risk-adjusted capital (RAC) ratio estimate on the bank remains comfortable at 7.5%-8.5% over the next 12-18 months.

We see good growth prospects for the Indian economy over the next couple of years. However, a resurgence of COVID-19 cases remains a key risk to economic recovery. Barring major economic disruptions caused by COVID-19, the banking sector's asset quality should start improving gradually. By our estimates, the system's weak loans ratio has peaked, at close to 9% as of Sept. 30, 2021. That said, residual stress remains for the small to midsize enterprise (SME) and retail sectors, given that their recovery has been uneven, so far.

Outlook

The positive outlook reflects a one-in-three chance that Axis Bank can sustain the improvements in its asset quality over the next 12-18 months. The bank's strong market position and stable deposit base underpin its credit profile.

Upside scenario

We could raise our ratings on Axis Bank if the bank's asset quality improves sustainably such that it is commensurate with higher-rated Indian and international peers' over the next 12-18 months.

Downside scenario

We could revise the outlook to stable if the bank's asset quality deteriorates, reversing the improvements seen over the last few quarters. This could happen if the economic recovery in India derails, resulting in asset quality pain for the bank.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Positive/B

Stand-alone credit profile: bb+

Anchor: bb+

- Business Position: Strong (+1)
- Capital and Earnings: Adequate (0)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-3

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Axis Bank Ltd.		
Issuer Credit Rating	BB+/Positive/B	BB+/Stable/B
Ratings Affirmed		
Axis Bank Ltd. (Dubai International Financial Centre Branch)		
Senior Unsecured	BB+	
Axis Bank Ltd. (GIFT City Branch)		
Senior Unsecured	BB+	