

India Ratings Downgrades Axis Finance's Bank Loans to 'IND D' and Reassigns 'IND AAA'/Stable; Affirms Other Ratings

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Axis Finance Limited (AFL) at its debt instruments as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AAA/Stable	Affirmed
Non-convertible debentures*	-	-	-	INR177,350 (reduced from INR185,000)	IND AAA/Stable	Affirmed
Tier II subordinated bonds *	-	-	-	INR34,700	IND AAA/Stable	Affirmed
Commercial paper	-	-	1 to 365 days	INR60,000	IND A1+	Affirmed
Principal protected market linked debenture *@	-	-	-	INR300	IND PP-MLD AAA /Stable	Affirmed
Long-term bank loan\$#	-	-	-	INR330,000	IND AAA/Stable	Downgraded and reassigned
Short-term bank loan\$#	-	-	-	INR20,000	IND A1+	Downgraded and reassigned

*Details in Annexure

\$The total bank loan limit of INR3,50,000 million stands fungible between long-term bank loan and short-term bank loan

#Downgraded to 'IND D' before being reassigned.

@Principal protected market linked debenture (PP-MLD) refers to the full principal protection in the equity-linked notes wherein the issuer is obligated to pay the full principal upon maturity.

Analytical Approach

AFL's ratings continue to be driven by Ind-Ra's continued expectation of support from its 100% parent, Axis Bank Limited (ABL; 'IND AAA'/Stable), if required.

Detailed Rationale of the Rating Action

The downgrade reflects the delayed payment on a single banking facility with a payment due of INR0.06 billion as on 30 December 2024. AFL had a current account in a bank with a balance of INR4.72 billion before the due date of the payment. The company gave an instruction to the bank to make the payment to the lender on 30 December 2024. However, the bank processed the same on 31 December 2024, leading to a delay of one day on the said commitment. It is to be noted that the liquidity position, as expected, remained commensurate to the rating levels.

The ratings have been reassigned in line with the agency's Default Recognition Criteria and Post-Default Curing Period Policy as the reasons for the delay in debt servicing has been addressed and AFL had resources in the form of bank balance of INR4.72 billion on 30 December 2024 (EOD) which was sufficient to fulfil the debt obligations. Also, AFL has taken measures to ensure non-recurrence of such instances.

The affirmation on the non-convertible debentures (NCDs), PP-MLDs, Tier II subordinated bonds and CPs, reflects AFL's strong parentage, linkage with ABL and continued support from the parent. The ratings also reflect AFL's long operating track record and adequate liquidity position.

List of Key Rating Drivers

Strengths

- Demonstrated ongoing parent support

- Ongoing product mix shift towards retail continuing
- Expanding geographic presence to support retail loan growth
- Margin likely to stabilise; control on credit cost is key
- Stable borrowing profile
- Stable asset quality; unseasoned book key monitorable

Weaknesses

- Elevated leverage; dependence on parent to fund equity
- Higher concentration in wholesale segment

Detailed Description of Key Rating Drivers

Demonstrated Ongoing Parent Support: AFL's ratings continue to be driven by ABL's credit strength and the strong operational and business linkages between them. AFL is core to ABL's business and operations under its One Axis strategy and provides synergistic benefits to the Axis group. Currently, AFL has eight members on its board, with Amitabh Chaudhry, ABL's managing director and chief executive officer, acting as the non-executive chairman of the company and Deepak Maheshwari, ex-chief credit officer of ABL, acting as a non-executive director on board and part of risk management committee. In addition, AFL shares office premises with ABL, with AFL's registered and corporate office being located in Axis House. AFL also continues to receive support and oversight from ABL in assurance functions.

ABL has supported AFL's growth and capital levels by regularly infusing equity in the latter. The last equity infusion was of INR3 billion in FY24 (FY23: INR4 billion). Further, the agency expects, given the AFL's growth plans, capital infusion is likely to happen in FY25 and on an ongoing basis in the medium term. ABL also provides AFL with back-up funding lines of INR20.50 billion and operational oversight on an ongoing basis. All policies related to credit and human resources of AFL are approved under the oversight of ABL.

Ongoing Product Mix Shift towards Retail Continuing: In the past two-to-three years, the company has discontinued loan against shares and has scaled down real estate financing to 6.4% (FY23: 6.0%, FY22 :7.0%, FY21:16.3%) of the overall assets under finance (AUF), with plans to maintain the same below 10% of the overall AUF. In FY24, nearly 85% of the disbursements in the corporate book were to companies rated 'A-' or above (FY23: 80%, FY22: 96%, FY21: 88%; FY20: 53%), with 93% of the total wholesale AUF being secured. The company has been focusing increasingly on corporate loans that are in operating level companies or adequately backed by contracted/demonstrated cash flows. Collateralised loans (lease rental discounting/loan against property/exposures to certain other focus sectors) are an additional focus area to add granularity and diversification in the wholesale book.

The share of the wholesale book in the overall AUF reduced to 47.2% in FY24 from 60.3% in FY20. To granulise the portfolio in FY23, AFL also started focusing on lending to emerging corporates, with ticket sizes of INR50 million-250 million; the segment contributed 6.0% to the portfolio at FYE24 (FYE23: 7.3%, FYE22: 3.8%). The company plans to continue to focus on this segment. The agency expects this shift towards retailisation to continue in FY25 and beyond, such that the mix of retail and emerging corporates assets in the overall product mix eventually increases to around 70% in the long term.

Expanding Geographic Presence to Support Retail Loan Growth: AFL embarked on the retailisation process in a bid to diversify its portfolio, and over FY19-FY23, the company introduced new lines of retail lending such as loan against property, business loans, salaried personal loans, and housing loans. AFL has been leveraging the Axis group's ecosystem in the tier-1 and tier-2 geographies, where the branch-led distribution of these products is underway; as a result, the share of retail products in the overall portfolio increased to 44.6% at FYE24 (FYE23: 40.7%, FYE22: 33.4%, FYE21: 17.0%). The company plans to scale the branch network and locations from its present 54 branches and 200 locations respectively; this will help AFL grow its retail book. The agency opines that successful execution of the retail segments will improve growth scalability, provide granularity to the loan book, and result in higher yields. However, it will also lead to a higher operating cost structure compared to the earlier wholesale portfolio regime.

Margins Likely to Stabilise; Control on Credit Cost is Key: AFL's net interest margin (NIM) has moderated as higher cost of borrowing was not fully passed on to its customers on account of incremental exposure to better rated corporates. Moreover, lower direct assignment income and higher credit costs (FY24: 54bp yoy, FY23: 32bp yoy) were compensated by moderating operating expense to assets under finance (AUF), which stood at 1.37% in FY24 (FY23: 1.44%), thereby supporting the return on assets (FY24: 2.11%, FY23: 2.82%, FY22: 2.45%). However, AFL has strong profitability buffers to absorb an elevated level of credit costs, with pre-provision operating profit to credit cost of 6.29x in FY24 (FY23: 12.84x, FY22: 7.37x). Ind-Ra expects the company to report stable NIM and healthy fee income realisation. Assuming similar cost structure and credit cost as FY24, the company's return on assets would remain around similar levels over the near-to-medium term.

Stable Borrowing Profile: AFL's assets are funded through a mix of equity and borrowings. The borrowings are raised through a mix of loans from bank (48% of total borrowings), NCDs (36.5%), commercial paper (CP; 6.8%) and subordinated debt (8.7%). Since FY21, AFL reduced its reliance on CPs by replacing them with long-term borrowings. Consequently, the share of CP in the overall borrowing stood at 6.8% in FY24 (FY23: 4.4%) from 26.5% in FY21. With the change in tenor loans on balance sheet and reduced focus on short-term loans, AFL intends to keep the share of CP below 15%, and plans to increase the share of long tenor liability in the form of bank loans and NCDs.

Stable Asset Quality; Unseasoned Book Key Monitorable: AFL's gross stage-3 assets declined to 0.44% at FYE24 (FYE23: 0.60%, FYE22: 1.23%). A reduction of INR0.81 billion was on account of recoveries and write offs. The gross non-performing assets in the real estate funding

portfolio reduced to 1.9% in FY24 (FY23: 5.8%, FY22: 11.3%), largely because of recoveries and base growth. Moreover, adequate collateral (around 2.0x) and the backing of project cash flows in the real estate segment will keep the credit costs controlled. Furthermore, this book constituted just 6.4% of the overall AUF at FYE24. AFL's stage-3 provision cover declined to 47.9% in FY24 (FY23: 57.2%), largely because of writing off exercise which would increase in the medium term; further, incremental corporate exposure to better-rated corporates provide comfort to the asset quality. However, asset quality will be a key monitorable, given AFL's portfolio is largely unseasoned, since it witnessed higher growth, along with higher churning in AUF in FY23 and FY24, and also due to the wholesale nature of the book.

Elevated Leverage; Dependence on Parent to Fund Equity: The leverage (debt/tangible equity) remained elevated in FY24 owing to its strong growth momentum to 7.07x (FY23: 6.50x, FY22: 7.06x). The company aims to maintain its steady state debt/equity ratio between 7.0x and 7.5x on a sustained basis over the medium term. ABL's capacity to extend equity support, whenever required, should support AFL's capital ratios and keep them well above the regulatory requirements. Ind-Ra believes the company is likely to require capital over the near term, given its intention to achieve its targeted loan growth in FY25. The tier-I capital adequacy ratio stood at 13.2% in FY24 (FY23: 14.8%, FY22: 14.0%). The agency expects, given the current leverage levels and growth plans of the entity, capital infusion is likely to happen in FY25 and on an ongoing basis in the medium term.

Higher Concentration in Wholesale Segment: AFL's AUF stood at INR321.2 billion at FYE24 (FYE23: INR233.4 billion, FYE22: INR170.6 billion). In terms of products, corporate loans constituted 26.7% of the AUF in FY24 (FY23: 31.6%, FYE22: 41.7%), real estate funding accounted for 6.4% (6.0%, 7.0%), collateralised loans for 12.9% (10.1% ,11.5%), emerging corporate loan for 6.0% (7.3%, 3.8%) and retail loans for 44.6%, (40.7%, 33.4%). The agency believes that any macroeconomic stress could impact the asset quality of the company, given that 47.2% of its AUF continues to be wholesale in nature. While AFL has been able to keep asset quality in the corporate segment under check so far, the concentration can lead to a uptick in gross non-performing assets in case few of the large exposures turns delinquent. That said, in line with its plan, the management has reduced the concentration in the real estate funding.

Liquidity

Adequate: At end-March 2024, AFL had cash and cash equivalents of INR6.07 billion and unutilised bank lines of INR59.25 billion (including unutilised lines of INR20.50 billion from ABL) as against a debt repayment of INR52.35 billion over April -September 2024. AFL has adequate liquidity to cover its debt repayments and operating expenses for a minimum of six months, assuming nil inflows. The agency understands the on-balance sheet liquidity, along with undrawn lines will be adequate to cover three months of liability repayments and operating expense while assuming nil inflows on an ongoing basis.

The structural liquidity statement for March 2024 shows a positive cumulative gap of around 1.86% of the total assets in the short-term buckets up to one year. However, AFL is supported by sufficient undrawn bank lines, which can be utilised to cover the liquidity gaps in the short-term buckets. Ind-Ra also understands AFL has strong liquidity support from ABL towards meeting any shortfall in a contingency.

Rating Sensitivities

Positive: Not applicable

Negative: Any assessment of a decline in ABL's support expectation could lead to a rating downgrade. This could be in the form of material dilution of ownership, reduced operational oversight or otherwise. High AUM growth or a significant dilution in profitability buffers, not supported by timely equity infusions, could also lead to a negative rating action. In addition, any decline in ABL's issuer ratings could lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

AFL is a non-banking finance company. It has five key business lines - corporate loans, real estate funding, collateralised lending, emerging corporate lending and retail funding. At FYE24, the AUM stood at INR321.2 billion.

Key Financial Indicators

Particulars	FY24 (IND-AS)	FY23 (IND-AS)
Total assets (INR billion)	327.8	239.1
Total tangible equity (INR billion)	39.5	30.8
Net income (INR billion)	6.0	5.8
Return on average assets (%)	2.11	2.82
Equity/assets (%)	12.1	12.9

Tier 1 capital (%)	13.2	14.8
Source: AFL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook				Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating		27 June 2024	28 June 2023	29 June 2022	30 June 2021
Issuer rating	Long-term	-	IND AAA/Stable		IND AAA/Stable	IND AAA/Stable	IND AAA/Stable/ IND A1+	IND AAA/Stable/ IND A1+
Commercial paper	Short-term	INR60,000	IND A1+		IND A1+	IND A1+	IND A1+	IND A1+
Long-term bank loan	Long-term	INR3,30,000	IND AAA/Stable	IND D	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Short-term bank loan	Short-term	INR20,000	IND A1+	IND D	IND A1+	IND A1+	IND A1+	IND A1+
Tier II subordinated bonds	Long-term	INR34,700	IND AAA/Stable		IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Non-convertible debentures	Long-term	INR177,350	IND AAA/Stable		IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Principal protected market linked debenture	Long-term	INR300	IND PP-MLD AAA /Stable		IND PP- MLD AAA /Stable	IND PP- MLD AAA /Stable	IND PP- MLD AAA emr/Stable	IND PP- MLD AAA emr/Stable

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loans (short-term and long-term facilities)	Low
Non-convertible debentures	Low
Principal Protected Market Linked Debenture	High
Subordinated debt	Moderate
Commercial paper	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Tier II Subordinated Bonds

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Outstanding/Rated Amount (million)	Rating/Outlook
INE891K08034	5 August 2016	8.80	5 August 2026	INR2,000.00	IND AAA/Stable
INE891K08042	11 May 2017	8.50	11 May 2027	INR1,000.00	IND AAA/Stable
INE891K08042	11 May 2017	8.50	11 May 2027	INR500.00	IND AAA/Stable
INE891K08042	11 May 2017	8.50	11 May 2027	INR500.00	IND AAA/Stable
INE891K08059	14 September 2017	8.08	14 September 2027	INR500.00	IND AAA/Stable
INE891K08059	14 September 2017	8.08	14 September 2027	INR250.00	IND AAA/Stable
INE891K08059	14 September 2017	8.08	14 September 2027	INR250.00	IND AAA/Stable
INE891K08091	6 December 2021	7.42	5 December 2031	INR750.00	IND AAA/Stable
INE891K08133	26 September 2022	8.07	24 September 2032	INR1,000.00	IND AAA/Stable
INE891K08141	28 November 2022	8.06	26 November 2032	INR2,000.00	IND AAA/Stable
INE891K08166	30 October 2023	8.28	28 October 2033	INR2,000.00	IND AAA/Stable
INE891K08166	12 December 2023	8.28	28 October 2033	INR2,500.00	IND AAA/Stable
INE891K08067	15 February 2021	7.45	14 February 2031	INR700.00	IND AAA/Stable
INE891K08075	10 June 2021	7.40	10 June 2031	INR1,000.00	IND AAA/Stable
Limit utilised				INR14,950.00	
Limit unutilised				INR19,750.00	
Total				INR34,700.00	

Source: NSDL; AFL

Non-convertible debentures

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Outstanding/Rated Amount (million)	Rating/Outlook
INE891K07481	6 August 2019	8.30	6 August 2024	INR50.00	WD (Paid in Full)
INE891K07671	28 June 2021	7.27	26 June 2031	INR1,240.00	IND AAA/Stable
INE891K07689#	9 September 2021	0.00	9 September 2024	INR900.00	WD (Paid in Full)
INE891K07697	9 September 2021	5.75	9 September 2024	INR1,700.00	WD (Paid in Full)
INE891K07705	22 September 2021	6.55	22 September 2026	INR1,700.00	IND AAA/Stable
INE891K07713	29 September 2021	6.10	29 September 2025	INR1,250.00	IND AAA/Stable
INE891K07721	18 November 2021	6.80	18 November 2026	INR2,500.00	IND AAA/Stable
INE891K07721	18 November 2021	6.80	18 November 2026	INR1,500.00	IND AAA/Stable
INE891K07747	17 December 2021	6.05	17 December 2024	INR5,000.00	WD (Paid in Full)
INE891K07754	25 February 2022	6.30	25 February 2025	INR3,500.00	IND AAA/Stable
INE891K07762	30 March 2022	6.80	30 March 2026	INR2,500.00	IND AAA/Stable
INE891K07796	13 July 2022	7.70	11 July 2025	INR2,500.00	IND AAA/Stable
INE891K07812	8 September 2022	7.70	8 September 2027	INR1,000.00	IND AAA/Stable
INE891K07762	17 November 2022	6.80	30 March 2026	INR2,000.00	IND AAA/Stable
INE891K07820	23 February 2023	8.07	23 February 2028	INR2,630.00	IND AAA/Stable
INE891K07838	20 March 2023	8.35	20 May 2026	INR3,850.00	IND AAA/Stable
INE891K07846	3 May 2023	7.99	3 August 2026	INR3,000.00	IND AAA/Stable
INE891K07879	13 September 2023	8.00	11 December 2026	INR1,500.00	IND AAA/Stable
INE891K07887	22 September 2023	8.00	22 July 2026	INR3,750.00	IND AAA/Stable
INE891K07721	17 November 2023	6.80	18 November 2026	INR3,000.00	IND AAA/Stable
INE891K07895	17 November 2023	8.10	17 November 2028	INR2,000.00	IND AAA/Stable
INE891K07903	29 December 2023	8.29	26 February 2027	INR3,000.00	IND AAA/Stable
INE891K07911	29 December 2023	8.30	26 December 2025	INR4,950.00	IND AAA/Stable
INE891K07929	29 January 2024	8.19	29 January 2029	INR3,100.00	IND AAA/Stable
INE891K07937	21 February 2024	8.14	21 February 2029	INR1,840.00	IND AAA/Stable
INE891K07903	28 February 2024	8.29	26 February 2027	INR3,000.00	IND AAA/Stable
INE891K07945	28 February 2024	8.35	27 February 2026	INR3,000.00	IND AAA/Stable
INE891K07960#	7 March 2024	0.00	6 March 2026	INR500.00	IND AAA/Stable
INE891K07952	7 March 2024	8.35	7 May 2027	INR8,000.00	IND AAA/Stable
INE891K07978	19 April 2024	8.29	19 August 2027	INR4,000.00	IND AAA/Stable
INE891K07986	22 May 2024	8.15	22 May 2029	INR2,195.00	IND AAA/Stable
INE891K07978	22 May 2024	8.29	19 August 2027	INR4,000.00	IND AAA/Stable
INE891K07994	9 August 2024	8.05	25 April 2028	INR 2667	IND AAA/Stable
INE891K07AA0	29 November 2024	Three-month FIBIL T-bill	28 Jan 2028	INR 8000	IND AAA/Stable
			Utilised limits	INR87,672	
			Unutilised limits	INR89,678	
			Total	INR177,350.00	

Source: NSDL; AFL
Zero coupon bond

Principal Protected Market Linked Debenture

ISIN	Date of Issuance	Coupon Rate	Maturity Date	Outstanding/Rated Amount (million)	Rating/Outlook
INE891K07788*	14 June 2022	GSEC LINKED	13 June 2025	INR300.00	IND PP-MLD AAA/Stable
			Utilised	INR300.00	

Source: AFL; NSDL* coupon rate of 7.35%

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APPLICABLE CRITERIA AND POLICIES

Rating FI Subsidiaries and Holding Companies

Rating of Financial Institutions Legacy Hybrids and Sub-Debt

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

Default Recognition and Post-Default Curing Period

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